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LISTING STATEMENT NO. 2591

LISTED DECEMBER 27, 1972

15,256,453 Common shares, no par value, of which 215,848 shares are subject to issuance.
Stock Symbol PNE
Post Section 4.5

THE TORONTO STOCK EXCHANGE

LISTING STATEMENT

file

PANHANDLE EASTERN PIPE LINE COMPANY

Incorporated Under the Laws of the State
of Delaware on December 23, 1929

Common Stock, No Par Value

Capital Securities Outstanding at September 30, 1972

Type of Shares	Authorized	Issued	To Be Listed
Preferred (1).....	519,815	387,791	nil
4% Cumulative Preferred	19,815	18,443	nil
4.64% Series Cumulative Preferred	200,000	169,348	nil
8.60% Series Cumulative Preferred	200,000	200,000	nil
Common Stock, No Par Value	20,000,000	14,469,781 (3)	15,256,453 (2)

- (1) Issued in the Series set forth above; all Preferred Stock is \$100 par value and cumulative as to dividends.
- (2) 215,848 shares are issuable pursuant to the provisions of the Company's 1966 Qualified Stock Option Plan.
- (3) Net of 570,824 shares held in the Treasury.

Long-Term Debt	
Sinking Fund Debentures	
3 1/4% to 8 5/8% maturing 1973-1990	\$314,448,000*
Less unamortized discount	579,994
Total	\$313,868,006

*Includes debt due within one year of \$9,193,000.

1. APPLICATION

Panhandle Eastern Pipe Line Company (hereinafter called the "Company") hereby makes application to The Toronto Stock Exchange for the listing of 15,256,543 shares of Common Stock, without par value, of which 15,040,695 shares have been issued and are outstanding or held as treasury stock and all of such shares are fully paid and non-assessable. The remaining 215,848 shares of Common Stock included in this Application have been reserved for issuance upon the exercise of options, pursuant to the Company's 1966 Qualified Stock Option Plan.

ANNUAL REPORT

Reference is hereby made to the attached Annual Report to Stockholders for the year ended December 31, 1971, which is incorporated herein and made a part hereof and referred to for additional information in this Application.

2. HISTORY

The Company was incorporated in the State of Delaware, United States of America, on December 23, 1929. The Company and its wholly-owned principal subsidiary, Trunkline Gas Company ("Trunkline"), are prin-

cipally engaged in the transmission and sale of natural gas. The consolidated sales of natural gas accounted for approximately 93 percent of consolidated operating revenues for the twelve months ended September 30, 1972. The Company is also engaged in the production of natural gas. Anadarko Production Company ("Anadarko"), another wholly-owned subsidiary of the Company, is principally engaged in the exploration for and production of oil and natural gas.

The Company's Executive Offices are located at 3000 Bissonnet, Houston, Texas 77005.

3.

NATURE OF BUSINESS

Natural Gas

The transportation and sale, at wholesale, of natural gas by the Company and its subsidiaries accounted for consolidated operating revenues of \$283,624,315 in 1967, \$311,550,868 in 1968, \$345,856,103 in 1969, \$386,987,690 in 1970, and \$416,389,878 in 1971. No other line of business accounted for as much as ten percent of revenues in any such year.

The Federal Power Commission ("FPC") has jurisdiction with respect to the natural gas transmission business of the Company and its subsidiaries, including rates, accounts and records, certain extensions and abandonment of facilities and services and return on investment.

Transmission Facilities and Sales

At December 31, 1971, the Company owned and operated a gas pipe line system which consists of four large-diameter parallel pipe lines and compressor stations having an aggregate of 661,071 horsepower extending a distance of approximately 1,300 miles from the producing areas in the Panhandle and Hugoton Fields and the Anadarko Basin of Texas, Oklahoma and Kansas, through the States of Missouri, Illinois, Indiana and Ohio into Michigan. The Company and Trunkline, at September 30, 1972, had an authorized delivery capacity of 3,860 million cubic feet* per day. The Company and Trunkline sell natural gas to approximately 130 utilities and municipalities located along their respective pipeline systems for resale to domestic, commercial and industrial customers. In addition, the Company also sells gas directly to industrial customers located along its pipeline system and exports gas for sale in Canada.

Sales for resale to utility customers and municipalities are made pursuant to long-term contracts, providing for the sale of gas under Rate Schedules on file with the FPC as part of their Tariffs. The rates for such sales are fixed by the FPC. For the year ended December 31, 1971, the Company and its subsidiaries had total sales of 1,141 billion cubic feet of natural gas at an average price of 36.5 cents per thousand cubic feet. Sales to Consumers Power Company during the twelve months ended September 30, 1972, amounted to approximately 29 percent of total sales volumes of the combined transmission system of the Company and its subsidiaries. During the years 1967 through 1971 sales volumes (in cubic feet) were 903 billion, 973 billion, 1,033 billion, 1,105 billion, and 1,141 billion, respectively.

Trunkline Facilities

Trunkline's transmission system extends approximately 1,500 miles from the Gulf Coast areas of southern Texas and Louisiana through the States of Arkansas, Mississippi, Tennessee, Kentucky, Illinois and Indiana to a point on the Indiana-Michigan border near Elkhart, Indiana.

The system at December 31, 1971, consisted basically of three large-diameter pipelines — the first extends the entire length of the system (principally 26-inch pipeline) from the Mexican border to the Indiana-Michigan border; the second (a 30-inch pipeline) extends from Longville, Louisiana, to the Indiana-Michigan border; the third (a 36-inch pipeline) extends from Longville, Louisiana, to Tuscola, Illinois. In addition, Trunkline operates an extensive gas supply gathering system which includes over 500 miles of large-diameter pipeline in southern Louisiana, portions of which extend as far as 75 miles into the Gulf of Mexico. There are 16 mainline compressor stations (308,000 H.P.) and two gathering system compressor stations (24,000 H.P.).

Other Activities and Investments

The Company owns 3,000,000 shares, or approximately 11 percent of the outstanding Common Stock of National Distillers and Chemical Corporation, which stock is carried on the books of the Company at a cost of \$7,420,000. Based on the closing price on the New York Stock Exchange on September 30, 1972, the market value of such shares was approximately \$51 Million.

The Company owns 50 percent of the stock of National Helium Corporation ("National Helium"). National Helium is engaged in the extraction of helium hydrocarbons at its plant located near Liberal, Kansas. The helium production of the plant (1,170,339 Mcf in 1971 and 832,995 Mcf for the first nine months of 1972) is sold to the United States Government pursuant to a conservation program administered by the Bureau of Mines. The helium is sold at a base price of \$11.78 per Mcf up to a maximum of \$15.2 Million annually under a contract expiring in 1983, subject to an earlier termination under certain conditions.

The Department of the Interior has attempted to terminate the aforementioned contract. National Helium has offered to enter into negotiations to amend the original contract in a manner which would substantially reduce prices with respect to future sales.

*All references herein to gas volumes are on a measurement basis of pounds per square inch absolute.

The Company and its subsidiaries also have certain other minor investments.

The Company and its subsidiaries had 3,662 employees at September 30, 1972.

4. STOCK PROVISIONS AND VOTING POWERS

At September 30, 1972, the authorized Common Stock of the Company consisted of 20,000,000 shares, of which 14,425,303 shares were outstanding and 44,478 shares were reserved for exchange pursuant to the Moka Agreement of Merger. Of the authorized but unissued shares 215,848 shares were reserved for issuance under the Company's 1966 Qualified Stock Option Plan under which options for 143,120 shares were outstanding at September 30, 1972.

The following statements constitute brief summaries of certain provisions of the Company's (a) Certificate of Incorporation, as amended, (b) Certificate of Designation and Terms of 4% Cumulative Preferred Stock (hereinafter referred to as the "Preferred Stock"), (c) Certificate of Designation and Terms of 4.64% Series Cumulative Preferred Stock, (d) Certificate of Designation and Terms of 8.60% Series Cumulative Preferred Stock, and (e) Indentures under which there have been issued the Company's 3 1/4% Sinking Fund Debentures due 1973, 3 1/8% Debentures due 1974, 2 3/4% Debentures due 1975, 4 3/4% Debentures due 1978, 4 3/8% Debentures due 1982, 4.60% Debentures due 1984, 4 3/4% Debentures due 1985, 5 3/4% Debentures due 1987, 6 1/2% Debentures due 1987, 7 1/4% Debentures due 1989, 8 5/8% Debentures due 1989, and 8 5/8% Debentures due 1990 (all of which Debentures are hereinafter referred to as the "Debentures"). The summaries of the foregoing documents contained herein do not purport to be complete and are qualified in their entirety by reference to the documents themselves, all of which are on file with the Securities and Exchange Commission, Washington, D.C.

Dividend Rights

Subject to the limitations referred to below and any additional limitations fixed by the Board of Directors in creating any new series of the Company's Cumulative Preferred Stock, holders of Common Stock are entitled to receive dividends, out of any funds legally available therefor, when and as declared by the Board of Directors.

Holders of the Preferred Stock, 4.64% Series Cumulative Preferred Stock, 8.60% Series Cumulative Preferred Stock and such additional series of the Cumulative Preferred Stock as may be created by the Board of Directors (which series and all such additional series are hereinafter referred to as the "Cumulative Preferred Stock") are or will be entitled to receive cumulative preferential cash dividends, as and when declared by the Board of Directors out of funds legally available therefor, at the rate fixed in the creation of such class or series. So long as any shares of Preferred Stock or Cumulative Preferred Stock are outstanding, no dividend or other distribution may be declared or made on the Common Stock unless all current and past dividends on the Preferred Stock and the cumulative Preferred Stock have been paid, or declared and set apart for payment, and unless the Company is not in default under any sinking fund for the Preferred Stock or any series of the Cumulative Preferred Stock.

Under the terms of its Indenture, dated December 1, 1948, the Company may not, so long as any of its 3 1/4% Debentures due 1973 remain outstanding, declare any dividends (other than dividends payable in shares of its stock) or make any distribution on, or purchase or redeem, any shares of its stock at any time outstanding or permit any subsidiary (a corporation, all of the capital stock of which is owned directly or indirectly by the Company) to purchase any shares of stock of the Company, except to the extent of the excess of (a) the aggregate of (i) the consolidated earned surplus (as defined) of the Company and its subsidiaries (as defined) arising subsequent to January 1, 1948, (ii) \$7,000,000 and (iii) the proceeds of the resale, other than to the Company or a subsidiary, of any shares of stock of the Company purchased, redeemed or otherwise acquired by the Company or a subsidiary since December 31, 1947, over (b) the aggregate of (i) all dividends, other than dividends payable in shares of stock of the Company and dividends payable to a subsidiary, declared on all stock of the Company since December 31, 1947, and (ii) the cost to the Company or a subsidiary of all shares of stock of the Company purchased or redeemed since December 31, 1947, by the Company or a subsidiary (unless such purchase or redemption is from a subsidiary, or by a subsidiary from the Company, or unless such purchase or redemption is made out of the proceeds of the issue and sale since December 31, 1947, other than to a subsidiary, of shares of stock of the Company).

By the terms of the respective Indentures under which the Debentures, other than the 3 1/4% Debentures due 1973, have been issued and by the terms of the Company's Certificate of Designation and Terms of the Preferred Stock and the Cumulative Preferred Stock, the Company has similarly restricted the declaration of dividends on any shares of its stock, based on the amount of the consolidated earned surplus of the Company and its subsidiaries. Under the most restrictive of these covenants, \$163,767,560 of the consolidated earned surplus (as defined) of the Company and subsidiaries (as defined) at September 30, 1972, was not restricted as to payment of dividends.

Voting Rights

Holders of the Common Stock have, subject to the voting rights of the Preferred Stock and the Cumulative Preferred Stock, the sole right to vote for the election of directors and other purposes.

Whenever six quarterly dividends on the Preferred Stock or the Cumulative Preferred Stock shall be in default, in whole or in part, and by reason of such default dividends amounting in the aggregate to a full year's dividend per share shall be accrued and unpaid and whenever any sinking fund payment on any series of the Cumulative Preferred Stock shall be in default, then holders of the shares of such class, voting as a class, shall have the right to elect two additional members of the Board of Directors, until all arrears of dividends on such class

shall have been paid in full or set apart for payment and, in the case of the Preferred Stock, the current dividend shall have been declared and set apart for payment and, in the case of the Cumulative Preferred Stock, all sinking fund payments in default shall have been paid in full or funds set aside for the payment thereof. Holders of the Preferred Stock and the Cumulative Preferred Stock are not entitled to vote in respect of any other matters except as provided by statute and except that the Certificate of Incorporation contains provisions to the general effect that, so long as any shares of the Preferred Stock or the Cumulative Preferred Stock are outstanding, the holders of such shares shall be entitled to vote as a class on certain matters affecting the rights and preferences of such class relating to such matters as (1) any amendment, alteration or repeal of any of the terms or provisions of the Certificate of Incorporation which would adversely affect the rights and preferences of the holders of such class, (2) the authorization or creation of any shares of stock, or any security convertible into stock, of any class ranking prior as to payment of dividends or upon liquidation to such class, (3) the sale, lease, transfer or conveyance of all or substantially all of the property or business of the Company or the voluntary liquidation, dissolution or winding up of its business, or (4) any merger or consolidation involving the Company which would adversely affect the rights and preferences of such class. The consent of two-thirds of the outstanding stock of the class affected is required before any such action may be taken. The consent of a majority of the outstanding stock of a class or series is required in the event of certain other actions unless certain earnings and other tests are met.

Liquidation Rights

Upon any involuntary liquidation, dissolution or winding up of the Company or, in the case of the Preferred Stock, upon any involuntary distribution of assets by way of return of capital, holders of the Preferred Stock and the Cumulative Preferred Stock will be entitled to receive \$100 per share, and upon any voluntary liquidation, dissolution or winding up or, in the case of the Preferred Stock, upon any voluntary distribution of assets by way of return of capital, holders of the Preferred Stock will be entitled to receive \$104 per share and holders of each series of the Cumulative Preferred Stock will be entitled to receive an amount equal to the optional redemption price for such series applicable at the time as fixed by the Board of Directors in creating such series, in each of the above cases together with the amount of any accrued and unpaid dividends and before any distribution to the holders of Common Stock. After satisfaction of the aforesaid preferential rights, holders of common Stock will be entitled to receive pro rata all remaining assets available for distribution to stockholders.

Pre-emptive Rights and Other Provisions

The holders of the Common Stock of the Company have no pre-emptive rights and there are no provisions for redemption, conversion rights or liability for further call with respect to the Common Stock.

1966 Qualified Stock Option Plan

On April 20, 1966, the Stockholders of the company adopted the 1966 Qualified Stock Option Plan which provides for the reservation of 400,000 Shares of Common Stock for issuance and sale, pursuant to stock options issued thereunder. Stock options are granted to full-time key employees of the Company and are exercisable in varying amounts over a period of five years from the date of grant. If an employee leaves the Company during this period, there is a limited time period in which he may exercise the options which were exercisable by him at the time his employment terminated. The options are non-assignable and are granted at a price equal to the average of the high and low prices on the New York Stock Exchange on the date of grant. The number of shares reserved for issuance, pursuant to the terms of the Qualified Stock Option Plan, is substantially less than five percent of the issued and outstanding shares of the Company's Common Stock and no employee may receive an option to purchase more than an aggregate of ten percent of the number of shares of Stock subject to the Plan.

There are no other outstanding options, underwritings, purchase or sale agreements or other contracts or agreements of a like nature with respect to any unissued shares of Stock of the Company or any issued shares held for the benefit of the Company, with the exception of the shares subject to the 1966 Qualified Stock Option Plan described above.

5. SUMMARY OF CHANGES IN AUTHORIZED CAPITAL STOCK

Date	STOCK AUTHORIZED		
	Common No Par Value	Preferred \$100 Par Value	Cumulative Preferred \$100 Par Value
December 23, 1929	10,000	15,000	—
March 30, 1932	Increased to: 230,000	Same	—
July 17, 1935	Reduced to: 2,298	Same	—
February 6, 1936	Increased to: 1,250,000	Increased to: 110,000	—
May 5, 1936	Reduced to: 810,000	100,000 Class A 10,000 Class B	—
January 26, 1942	Same	Same	250,000
February 14, 1942	Same	Class A eliminated	Same
April 5, 1943	Same	Class B eliminated	Same
March 22, 1945	Increased to: 1,620,000	—	Reduced to: 238,465
July 7, 1945	Same	150,000	Reduced to: 233,215
July 3, 1946	Same	Same	Eliminated
December 15, 1949	Increased to: 4,000,000	Reduced to: 145,455	—
December 14, 1956	Increased to: 10,000,000	Reduced to: 126,000	—
October 18, 1962	Same	Reduced to: 82,612	500,000
April 28, 1965	Increased to: 15,000,000	Same	Same
April 29, 1966	Increased to: 20,000,000	Reduced to: 58,072	Same

6. SHARES ISSUED DURING THE PAST TEN YEARS

During the past ten years, the Company sold two Series of Cumulative Preferred Stock as follows: (1) 4.64% Series of 200,000 shares in October, 1962; and (2) 8.60% Series of 200,000 shares in October, 1969. Each sale was for cash at \$100 per share for total sales prices of \$20,000,000 in each instance, less expenses and underwriting costs. In addition, the Company has sold, pursuant to the provisions of its present and an earlier key employees stock option plan, 522,418 shares of Common Stock of the Company from October 1, 1962, through September 30, 1972. The shares of Common Stock so sold were sold at varying option prices ranging from \$21.03 to \$37.19. In addition, in April, 1971, the Company issued 644,618 shares of Stock to acquire the net assets of Missouri-Kansas Pipe Line Company which consisted of 543,724 shares of the Company's Common Stock and approximately \$5 million in cash. The merger resulted in a net increase of 100,894 in the number of shares of Common Stock of the Company outstanding.

7. DIVIDEND RECORD

There are no arrearages in the payment of any dividends on the Cumulative Preferred Stock, Preferred Stock, or Common Stock of the Company. Dividends on Common Stock, for the period of the last ten years, were paid in the following amounts in the years indicated:

<u>Year</u>	<u>Amount*</u>
1962	\$.98 per share
1963	1.08 per share
1964	1.20 per share
1965	1.38 per share
1966	1.50 per share
1967-69	1.60 per share
1970	1.70 per share
1971	1.80 per share
1972 (through September 15)	1.35 per share

*Dividends were declared at various declaration dates to be payable on the 15th day of March, June, September and December of each year to each share of Common Stock outstanding on the respective record dates.

Dividends have been adjusted retroactively to reflect a 2 1/2% Common Stock Dividend paid on December 31, 1963, and a two-for-one stock split on April 28, 1965.

Reference is made to Pages 34 and 35 of the Company's Annual Report for the year ended December 31, 1971, with respect to the Company's Dividend Record on its Common Stock.

8. SUBSIDIARY COMPANIES

See Appendix on Page 10.

9. FUNDED DEBT*

Panhandle Eastern Pipe Line Company

<u>Debentures</u>	<u>Interest Dates</u>	<u>Amounts</u> <u>(000s Omitted)</u>
3 1/4% Series due 1973	February and August	\$ 1,118
2 3/4% Series due 1975	June and December	3,788
3 1/8% Series due 1974	May and November	9,042
4 3/4% Series due 1978	June and December	30,400
4 3/8% Series due 1982	April and October	43,636
4.60% Series due 1984	February and August	32,177
4 3/4% Series due 1985	May and November	32,892
5 3/4% Series due 1987	February and August	28,532
6 1/2% Series due 1987	April and October	30,685
7 1/4% Series due 1989	July and January	26,378
8 5/8% Series due 1989	April and October	37,200
8 5/8% Series due 1990	May and November	38,600
Total Panhandle		\$314,448**

Trunkline Gas Company

<u>First Mortgage Pipe Line Bonds</u>	<u>Interest Dates</u>	<u>Amounts (000s Omitted)</u>
3 5/8% Series due 1975	May and November	\$ 2,924
5 1/4% Series due 1979	May and November	32,800
5.00% Series due 1982	January and July	24,597
6 1/2% Series due 1986	February and August	28,930
6 3/4% Series due 1987	April and October	28,089
9 1/4% Series due 1990	April and October	40,000
		<u>\$157,340</u>
Other Notes Payable		<u>76,748</u>
Total Trunkline		<u>\$234,088***</u>

* There are no arrears in repayment of any funded debt of the Company or Trunkline.

** Includes amounts due within one year of \$9,193,000.

*** Includes amounts due within one year of \$13,278,000.

10. LISTING ON OTHER STOCK EXCHANGES

The Common Stock of the Company is listed on the New York Stock Exchange and the Pacific Coast Stock Exchange. Unlisted trading privileges have also been granted on the Midwest Stock Exchange.

11. STATUS UNDER SECURITIES ACTS

The Company has never made any filings with, or obtained registration, approval, or qualification by The Ontario Securities Commission or any corresponding body or authority in Canada. The Common Stock of the Company is registered under the United States Securities Exchange Act of 1934, as amended.

12. FISCAL YEAR AND ANNUAL MEETINGS

The fiscal year of the Company ends December 31. The Annual Meeting of Stockholders is held in New York City, New York, or such other place as may be selected by the Board of Directors, at 10:30 a.m. on the fourth Wednesday in April. The last Annual Meeting was held in New York on April 26, 1972.

13. HEAD AND OTHER OFFICES

The Executive Office of the Company is located at 3000 Bissonnet, Houston, Texas 77005. The Operating Offices of the Company are located at 3444 Broadway, Kansas City, Missouri 64111. The Company also maintains small Offices in New York City and Washington, D.C.

14. TRANSFER AGENTS AND FEE

Share Certificates of Common Stock are mutually interchangeable and Transfer Agents are: Morgan Guaranty Trust Company of New York, in New York City; Continental Stock Transfer Company in Jersey City, New Jersey; First City National Bank of Houston in Houston, Texas; and the Guaranty Trust Company in Toronto, Canada.

No fee is charged on Stock transferred other than transfer taxes where applicable.

15. REGISTRARS

The Registrars of the Common Stock of the Company are: Chemical Bank in New York, New York; Bank of the Southwest National Association, Houston, in Houston, Texas; and, Canada Permanent Trust Company in Toronto, Canada.

16. AUDITORS

The Company's Auditors are Peat, Marwick, Mitchell & Co., Certified Public Accountants, One Shell Plaza, Houston, Texas.

Annual Report 1971

Panhandle Eastern

PIPE LINE COMPANY

Trunkline Gas Company



Highlights

FINANCIAL	1971	1970
Operating Revenues	\$451 Million	\$419 Million
Net Income	\$42.9 Million	\$47.4 Million
Earnings Per Share	\$2.80	\$3.15
Shares Outstanding	14,405,576	14,219,175
Total Assets	\$1.116 Billion	\$1.082 Billion

GENERAL

Annual Gas Sales	1.141 Tcf*	1.105 Tcf
Daily Sales Capacity (including storage)	3.860 Bcf*	3.860 Bcf
Average Day Sales	3.125 Bcf	3.029 Bcf
Pipeline in Service	13,600 Miles	13,565 Miles
Installed Horsepower	993,000	960,000

*Tcf—trillion cubic feet; Bcf—billion cubic feet

A new discovery of gas reserves has been made in eastern Colorado and a plan to attach this new supply to the Panhandle system has been filed with the Federal Power Commission.

Initial drilling results on acreage offshore in the Gulf of Mexico, in which Trunkline and Anadarko have a large investment, have been excellent. Exploration and development of this acreage by the Sun Oil Company group will accelerate in 1972.

Panhandle Eastern obtained approval late in 1971 of a rate increase amounting to about \$21 Million annually. A settlement agreement, providing for an annual revenue increase for Trunkline of \$25 Million, is pending approval of the Federal Power Commission.

Cover

The cover depicts the accelerated program of the Company and its subsidiaries to acquire new natural gas supplies. The drilling rig is operating 120 miles offshore in the Gulf of Mexico and is portrayed on the background of a seismic section of the geologic formations beneath the Gulf. Seismology is one of the modern techniques employed in the exploration for natural gas.

PRINTED IN U.S.A.

The Annual Report is published by the Company each year to inform Stockholders of the results of the past year's operations. It is not intended for use in connection with the offering or sale of securities.

**Annual Report
for the year
ended
December 31, 1971**

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Annual Meeting

Stockholders are invited to attend the Annual Meeting which is scheduled for 10:30 a.m., Wednesday, April 26, 1972 in the Ground Floor Auditorium at One Chase Manhattan Plaza, New York City. The official notice of the meeting and accompanying proxy statement will be mailed about March 20, 1972.

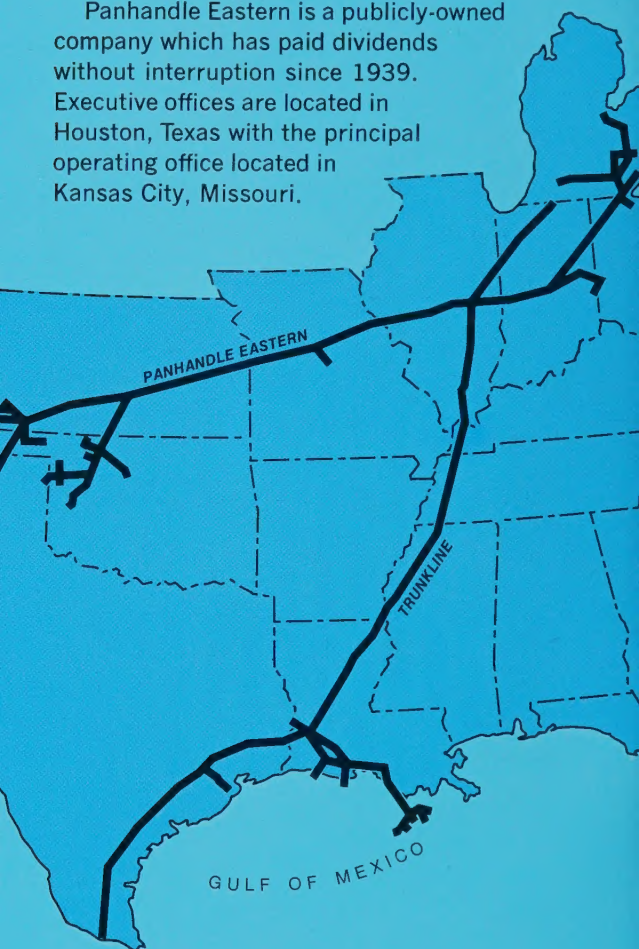
About the Company

The primary business of the Company and its major subsidiary, Trunkline Gas Company, is the transmission and sale of natural gas to about 130 investor-owned and municipal gas systems. These customers, in turn, provide local gas service to a market area encompassing 24 million people in 12 states and Canada. In addition, the Company sells gas directly to 47 industrial users located along its pipeline system.

The Panhandle-Trunkline transmission system consists of 13,600 miles of pipeline and related facilities which transport gas produced in the two principal producing regions of the United States—the Mid-Continent area of Kansas, Oklahoma and the Texas Panhandle and the Texas-Louisiana Gulf Coast area including offshore Gulf of Mexico. Gas transmission activities are regulated by the Federal Power Commission.

A second wholly-owned subsidiary, Anadarko Production Company of Fort Worth, engages in the exploration and development of oil and gas reserves. Anadarko operates in the principal producing regions of the United States and Canada.

Panhandle Eastern is a publicly-owned company which has paid dividends without interruption since 1939. Executive offices are located in Houston, Texas with the principal operating office located in Kansas City, Missouri.



To the Stockholders:

Consolidated net income in 1971 was \$42.9 Million which, after payment of preferred dividends was equal to \$2.80 per share as compared with \$47.4 Million or \$3.15 per share in 1970 on a lesser number of shares outstanding. The Company paid cash dividends of about \$26 Million on the common stock, reflecting payment for the full year at the increased annual rate of \$1.80 per share instituted in the third quarter of 1970.

A number of elements contributed to the reduction in the Company's earnings, including higher gas purchase costs, increased operating costs and lower than anticipated sales resulting from gas supply shortages—making it apparent that substantial rate increases were necessary. Progress has been made in this regard.

Rate Increases

An increase in rates of about \$21 Million annually was approved for the Panhandle system by the Federal Power Commission, effective November 14, 1971, following submission of a settlement agreement made by the Company, its customers and the FPC staff. A rate increase for Trunkline, amounting to approximately \$25 Million annually, was incorporated in a settlement agreement filed with the FPC on February 8, 1972 with a proposed effective date of February 17, 1972.

On February 10, 1972 the Price Commission issued an order freezing all utility rate increases in the nation for a period of 30-days. Since regulated industries and all utilities have always been subject to complex governmental regulation, particularly as to rates—a new layer of regulation by the Price Commission would appear to be unnecessary and counter-productive. Moreover, in the case of the natural gas industry, such added governmental involvement could hinder the industry's ability to resolve the gas supply shortage which is described more fully in this report. With respect to the Company, the rate increases outlined above are compatible with the President's anti-inflationary program since they represent recovery of cost increases already incurred.

Gas Supply and Sales

For the nation as a whole, investment in gas exploration has not advanced as rapidly as the need for new gas supplies warranted. During 1971, for example, restricted supply made it necessary for several pipeline companies, including Panhandle and Trunkline, to limit the volumes of gas transported to market. At the same time, many transmission com-

panies were forced to acquire emergency supplies of gas at higher than area prices to offset the normal decline in deliverability from established sources. In addition, the need to maintain supply has prompted the industry to move ahead with several supplemental supply projects, all embodying costs substantially higher than conventional sources.

The Panhandle-Trunkline system achieved sales of 1.141 trillion cubic feet in 1971, a small increase over 1970. Supply limitations prevented the attainment of anticipated sales volumes, thus affecting 1971 earnings. No expansion of pipeline sales capacity was undertaken in 1971 and none is contemplated for the next few years.

Capital expenditures are being devoted almost exclusively to the development of gas supply for the transmission systems. Favorable progress has been made by the Company in its gas development program. New reserves have been discovered in eastern Colorado and initial drilling results on acreage offshore Louisiana, in which Anadarko and Trunkline have a substantial investment, have been excellent. Plans to utilize these new sources are moving forward satisfactorily.

During the year Mr. Harry E. Ekblom, President of European-American Banking Corporation of New York was elected a member of the Board of Directors. He succeeded Mr. James B. Alley who reached the mandatory retirement age.

The strength of the Company and its capability for progress largely rests upon the competence and loyalty of its employees. We take pride in the work of the men and women of the Panhandle Eastern group and acknowledge their dedicated efforts during the year.



President



Chairman

March 10, 1972



Richard L. O'Shields



William C. Keefe

William C. Keefe, formerly Vice Chairman, was elected Chairman of the Board of Directors in October, succeeding W. K. Sanders, who retired following a distinguished 43-year career with the Company. Mr. Sanders remains a Director, giving the Company the continued benefit of his experience. Mr. Richard L. O'Shields continues to serve as President and Chief Executive Officer.

gain in sales volume as compared with the previous year and higher rates in effect on the Panhandle system for the last six weeks of the year.

The substantial revenue gain was more than offset, however, by a ten percent increase in operating expenses and taxes, reflecting the inflationary conditions of the general economy and higher gas purchase costs associated with gas supply deficiencies.

Operating expenses amounted to \$380 Million in 1971 as compared with \$347 Million in 1970. The major component was a 12 percent increase in gas purchase costs which rose from \$181 Million in 1970 to \$202 Million in 1971. The added gas purchase expense resulted from both higher volumes and increased unit prices. Depreciation charges advanced from \$48 Million in 1970 to \$53 Million in 1971, resulting in part from a full year's depreciation of facilities installed late in 1970 and from the amortization of newly acquired leases offshore.

Other Income

Sources other than pipeline operations contributed \$12.1 Million to consolidated net income in 1971, comparable to 1970. Principal elements included \$2.7 Million in dividends from the Company's investment in National Distillers and Chemical Corporation, the same as in 1970. Discounts resulting from the purchase of securities for sinking fund purposes amounted to \$2.7 Million in 1971 compared with \$2.9 Million in 1970. Miscellaneous interest and dividend income amounted to \$1.9 Million in 1971 compared with \$2.3 Million in the prior year. Investment tax credit included in net income for 1971 was \$2 Million as compared with \$1.5 Million in 1970.

panies were forced to acquire emergency supply to set the normal decline in deliverability from the well. To maintain supply has prompted the industry to undertake projects, all embodying costs substantially higher than the normal.

The Panhandle-Trunkline system achieved a small increase over 1970. Supply limitations on sales volumes, thus affecting 1971 earnings. No major projects are undertaken in 1971 and none is contemplated for 1972.

Capital expenditures are being devoted almost entirely to supply for the transmission systems. Favorable conditions in its gas development program. New reserves are being added and initial drilling results on acreage offshore are promising. A substantial investment, have been expected to be moving forward satisfactorily.

During the year Mr. Harry E. Ekblom, President of New York was elected a member of the Board of Directors. James B. Alley who reached the mandatory retirement age of 70.

The strength of the Company and its competence and loyalty of its employees. We are proud of the Panhandle Eastern group and acknowledge the contribution of each member.

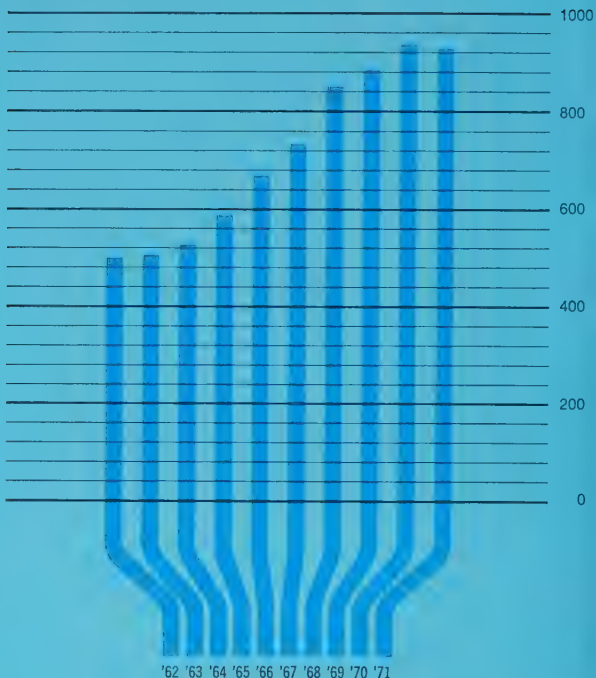
R. L. O'Shea

President

March 10, 1972

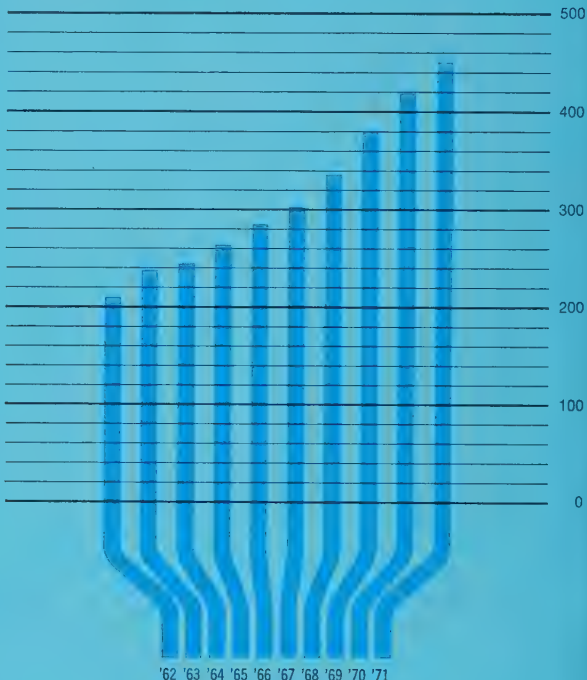
Net Plant Investment

Millions of Dollars



Total Operating Revenues

Millions of Dollars



Financial Matters

Consolidated net income in 1971 was \$42,940,422 which, after payment of preferred dividends, was equal to \$2.80 per share, a reduction from net income of \$47,389,155 or \$3.15 per share in 1970 on a lesser number of shares. This decline was principally the result of higher gas purchase costs, increased operating costs and lower than anticipated sales resulting from gas supply shortages.

The emergence of these factors made it apparent that substantial rate increases were necessary to compensate for such higher costs and, as indicated herein, progress has been made in this respect.

Specifically, the principal elements contributing to reduced earnings, stated on a pre-tax basis, included unrecovered costs of emergency gas purchases of \$2.3 Million; the delay in collecting higher rates because of the price freeze, \$1.4 Million; and increased costs of \$2 Million resulting from helium litigation. Moreover, the inability to achieve maximum sales levels because of supply constraints and warmer than normal weather during the fourth quarter also had an adverse effect on earnings in 1971.

Consolidated net income for 1971 includes Trunkline earnings of \$10.8 Million as compared with \$13.7 Million in the previous year. The contribution of Anadarko was \$2.4 Million as compared with \$2.8 Million in 1970. Century Refining Company added \$1.1 Million to consolidated earnings in 1971 as compared with \$.8 Million in 1970.

Operating Revenues and Expenses

Gross operating revenues reached a record \$451 Million in 1971, an eight percent increase over 1970 revenues of \$419 Million. The increase resulted from a small

gain in sales volume as compared with the previous year and higher rates in effect on the Panhandle system for the last six weeks of the year.

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National Helium Corporation

The Company's equity in the earnings of National Helium amounted to \$2.8 Million in 1971 as compared with \$2.7 Million in 1970. These earnings are reflected in Other Income under the equity method of accounting.

National Helium continued normal operations through the year, although the Department of the Interior had issued notice of termination of the Federal helium conservation program and cancellation of the helium purchase contract with the company as of March 27, 1971.

This action was challenged in the U. S. District Court, which enjoined the Department from cancelling the helium purchase contract because it had not considered the environmental impact of the failure to conserve helium as a national resource under the provisions of the National Environmental Policy Act. The U. S. Circuit Court of Appeals upheld the injunction and the Department did not seek review by the Supreme Court.

The Company and National Helium have offered the Department of the Interior full cooperation in any constructive effort to redesign the helium conservation program on a viable basis because helium is in limited supply and is important to new technology for the pollution-free generation and transmission of power. There has been no definitive solution to the problem.

In other litigation involving helium, the Court of Appeals for the Tenth Circuit in March, 1971 reversed a lower court decision and ruled that producers and royalty owners are entitled to share in the proceeds of the sale of helium-bearing natural gas supplied by the Company to National Helium. Certiorari was denied by the United States Supreme Court in January, 1972 and further proceedings will be held

in the trial court to determine the value of the helium pursuant to the Court of Appeals decision.

As indicated in the financial discussion above, this decision had the effect of increasing the Company's costs by approximately \$2 Million in 1971. The Company also faces a contingent liability in this case of approximately \$6.5 Million after taxes for the period 1963-70. (See Note 6 of the Financial Notes.)

The Missouri-Kansas Merger

The merger of Missouri-Kansas Pipe Line Company, a closed-end investment firm, into the Company was consummated in April following approval by the stockholders of each company. In exchange for the issuance of 646,152 shares of stock, the Company acquired the net assets of Mo-Kan which consisted of 543,724 shares of Panhandle Eastern common stock and about \$5 Million in cash. The merger resulted in a net increase of 102,428 in the number of shares outstanding, thus increasing the common stock equity and providing broader ownership of the Company's outstanding shares.

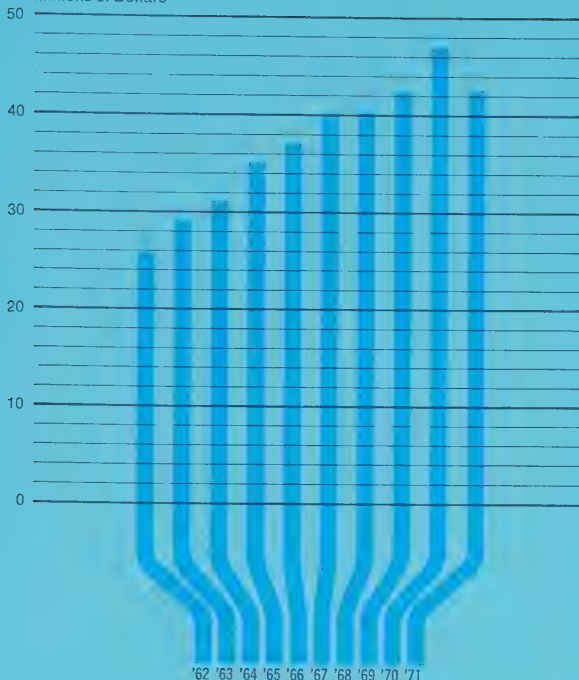
Financing

The capital needs of the Company and its subsidiaries were met in 1971 from internally generated funds and bank loans.

Early in 1972 Trunkline repaid \$30 Million of its outstanding revolving credit notes with a group of banks and converted the balance of \$60 Million to term notes, repayable over five years in ten equal semi-annual installments. As part of the transaction, Trunkline completed arrangements with five banks for the funding of \$27 Million of advance payments made for future gas deliveries. This loan is to be repaid out of production committed to

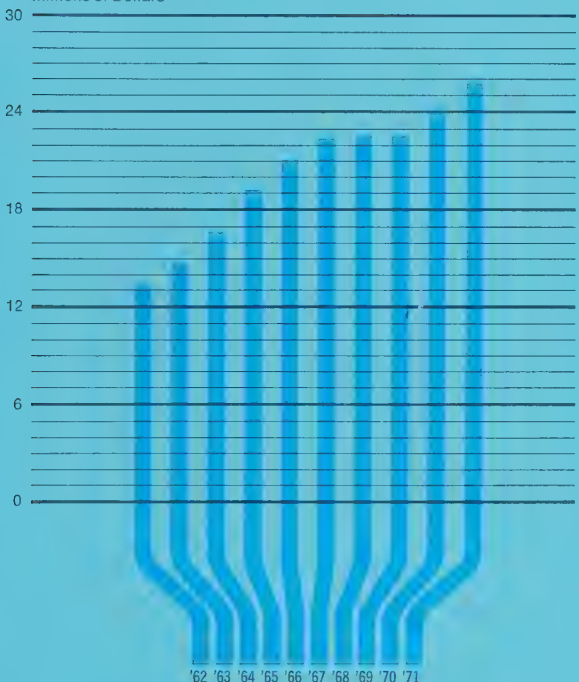
Net Income

Millions of Dollars



Common Stock Dividends

Millions of Dollars



Trunkline Rates

In August, Trunkline requested FPC authorization of a rate increase of approximately \$36 Million annually, seeking a higher rate of return and recovery of increased gas purchase and operating costs.

Settlement discussions between customers and the Commission staff resulted in an agreement providing an annual increase in revenues for Trunkline of approximately \$25 Million which was filed with the Commission on February 8, 1972 with a proposed effective date of February 17. The settlement incorporates a higher rate of return, a purchased gas adjustment provision similar to that achieved by Panhandle, and rate base recognition of advance payments.

On February 10, 1972 the Price Commission announced a temporary 30-day suspension of all utility rate increases in the nation and reserved the right to review certain increases already approved by such Commission. Public hearings were scheduled with the announced purpose of developing new policy and procedures for the regulation of price increases by utilities. No determination of these matters had been made at the time of publication.

1971 Sales

Consolidated sales volume totaled 1.141 trillion cubic feet in 1971, as compared with 1970 sales of 1.105 trillion cubic feet, the gain being smaller than anticipated because sufficient new gas supplies were not available to the pipeline systems. Peak day sendout was about four billion cubic feet in 1971 including underground storage, about the same as the 1970 peak day. Average daily sales were 3.125 billion cubic feet in 1971, 3.029 billion in 1970.

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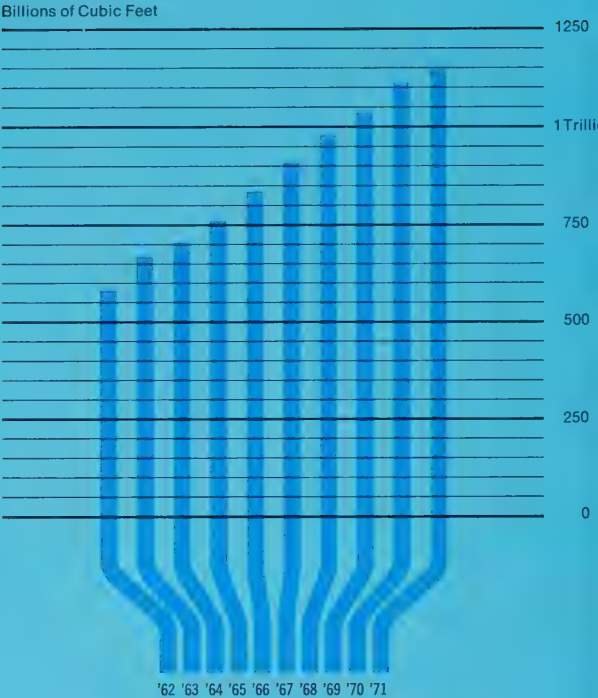
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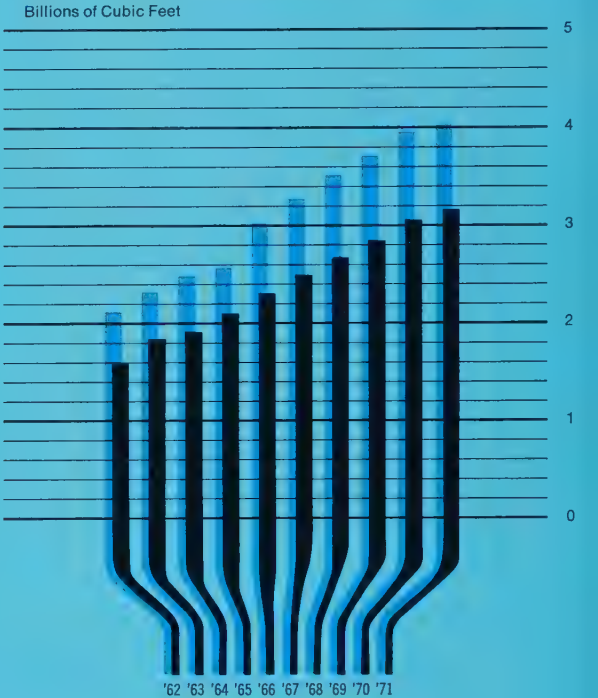
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Annual Gas Sales



Maximum and Average Day Gas Deliveries



Trunkline and must be retired no later than December 31, 1978. Trunkline's advance payments are covered by developed reserves or repayment obligations by producers.

Additional financing is anticipated during 1972 by both Panhandle and Trunkline in connection with gas supply projects and repayment of short-term bank loans.

Rate Increases

As pointed out in the discussion of financial results, cost increases of all kinds resulted in deteriorating profit margins in pipeline operations and made necessary the filing of rate increases on both the Panhandle and Trunkline systems during 1971. A settlement of the Panhandle case was approved by the Federal Power Commission late in the year and in February, 1972, a settlement agreement with respect to Trunkline's proposed rate increase was filed with the FPC.

Financial results for 1971 reflect the new Panhandle rates which were made effective as of November 14, 1971, the date having been delayed from October 27, 1971 by the 90-day price freeze. The Panhandle settlement provides the Company with additional revenue of approximately \$21 Million annually.

The settlement also permits the Company to adjust rates to recover increases incurred in the cost of purchased gas. Another important provision of the new rate structure was the inclusion in the rate base of advance payments made in connection with gas supply projects.

The original rate request, filed in April, 1971, contemplated an increase of approximately \$38 Million annually, including about \$8 Million as the allowance for the potential rate impact of the Pan Eastern gas supply project which has not as yet been decided by the FPC.

Trunkline Rates

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Settlement discussions between customers and the Commission staff resulted in an agreement providing an annual increase in revenues for Trunkline of approximately \$25 Million which was filed with the Commission on February 8, 1972 with a proposed effective date of February 17. The settlement incorporates a higher rate of return, a purchased gas adjustment provision similar to that achieved by Panhandle, and rate base recognition of advance payments.

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ing area and affected Trunkline and several of the other major interstate transmission systems obtaining supply from the region.

Curtailments

Concern for supply conditions generally prompted the Federal Power Commission early in the year to take two important actions: (a) development of procedures for handling curtailment of deliveries by pipelines because of supply deficiencies and (b) adoption of rules permitting transmission companies to make short-term purchases of emergency gas at prices above area rates.

With respect to curtailments the FPC required all natural gas companies to submit plans for curtailment of deliveries as might be occasioned by supply shortages. Such plans, designed to protect supplies for domestic and institutional users, were submitted by both Panhandle and Trunkline.

The Trunkline plan, which called for an equal sharing of any curtailment by its customers, was permitted to become effective by the Commission. The Panhandle plan, which provided for uniform curtailment of all industrial users (direct or indirect) served by the system, was opposed by several customer companies. An interim plan, reflecting this general principle, was authorized by the Commission for the 1971-72 winter period.

A lengthy FPC hearing, devoted to Panhandle's plan, was in progress at the time of publication and no decision is expected for several months.

Emergency Purchases

In connection with making additional volumes of gas available to pipeline companies, the FPC authorized the purchase of any available gas for periods of up to

60 days at prices above area rates. In most cases such purchases were permitted without the usual lengthy hearings.

Trunkline made emergency purchases of 13 billion cubic feet during 1971. In addition, Trunkline obtained another 18 billion cubic feet under delayed exchange agreements with other transmission companies, requiring redelivery in 1972 and 1973. The emergency gas was purchased at rates up to 35 cents per mcf—9 cents above the new gas prices established for the Southern Louisiana area.

Whether Trunkline can continue to acquire comparable volumes of emergency gas is uncertain. The shortage of substantial volumes of new reserves coupled with the further decline in deliverability of established production—conditions prevalent on the Gulf Coast—has created keen competition for whatever volumes of this nature become available.

Supply conditions are currently not as severe in the Mid-Continent producing area, the principal source of gas for the Panhandle system. Moreover, the Rocky Mountain gas supply project, which is discussed elsewhere in this report, should make a material contribution to the maintenance of deliverability of the Panhandle system in the years ahead.

Capital Expenditures

For the first time in a decade, the Company and Trunkline did not expand sales capacity in 1971 in view of gas supply conditions. Capital expenditures were devoted almost exclusively to the development of new gas supplies for each transmission system.

Total capital spending was about \$77 Million on a consolidated basis. Of this total \$32 Million consisted of advance payments for future gas deliveries, ap-



This is one of the successful wells in the Company's eastern Colorado exploration program which resulted in the discovery of new gas reserves in 1971.

proximately \$15 Million was invested in extending field gathering facilities and \$30 Million was spent for routine construction on both pipeline systems.

The largest gas supply expenditure was an advance payment of approximately \$20 Million by Trunkline to the Sun group in return for a commitment of gas offshore in the Gulf of Mexico. Panhandle expended about \$10 Million in exploratory drilling and lease acquisition in Colorado which resulted in substantial discoveries of gas.

1972 System Expenditures

Gas supply activities will again dominate utilization of capital resources during 1972. Capital spending is estimated to total about \$115 Million for the Panhandle and Trunkline systems exclusive of Anadarko's programs. The major project involves an estimated \$50 Million for construction of facilities to attach the newly discovered reserves in Colorado.

The Company and Trunkline have budgeted about \$35 Million for gas supply programs involving advance payments, lease acquisition and producer incentive agreements during 1972.

An investment of an additional \$8 Million is planned in expanding the capacity of underground storage fields, including the development of a new storage field near Tuscola, Illinois.

Research and related projects, routine construction on both pipeline systems, including safety-related projects are estimated to cost about \$22 Million in 1972.

Natural Gas Reserves

At the end of the year, consolidated system reserves were estimated to be 12 trillion cubic feet as compared with 13.2 trillion at the end of 1970. The reserve estimate for 1971 is approximately 10.7

times current annual sales requirements. New reserve additions amounted to about 450 billion cubic feet during the year but were offset by downward revisions of connected reserves.

The reserve estimate for 1971 does not include the proposed attachment of newly discovered reserves in Colorado nor does it reflect acreage committed to Trunkline offshore Louisiana. The Colorado project and offshore drilling are discussed in detail below.

Gas Supply Programs

Implementation of the Company's expanded gas acquisition program, described in the 1970 Annual Report, moved ahead satisfactorily during 1971. These were highlight developments:

- A discovery of new gas reserves was made in Colorado and early this year a plan to utilize this new supply was submitted to the Federal Power Commission.
- Trunkline obtained a commitment of gas to be developed from acreage offshore Louisiana.
- Approximately \$32 Million was invested by the Company and subsidiaries in supply incentive agreements with producers, bringing to \$45 Million the sum expended

in this aspect of gas supply developments over a two-year period.

- Anadarko strengthened its position in offshore exploration by moving to bid for additional Federal leases offshore Louisiana and Texas as a participant in two additional groups.
- The Company made its first move into Canadian exploration by joining two other United States gas companies in financing a \$30 Million drilling program in the Arctic Islands.

Rocky Mountain Exploration

In pursuit of one of the Company's principal supply objectives—entry into new geographic areas with promising gas potential—an extensive exploratory drilling program was completed in 1971 in the Denver-Julesburg Basin of eastern Colorado. This project was done in conjunction with Amoco Production Company, a subsidiary of Standard Oil Company of Indiana.

A total of 107 exploratory wells were drilled to test 300,000 acres dedicated to the project by Amoco. Of the total, 72 wells were completed as gas producers in the Wattenberg and adjacent fields.

Together with the Amoco acreage, the Company has rights to gas which may be discovered on approximately 1.3 million acres in the Wattenberg Field area. Exploration to date indicates the presence of reserves estimated at approximately one trillion cubic feet.

Early in 1972 the Company requested FPC authorization to construct the pipeline and related facilities necessary to attach these Colorado reserves to Panhandle's main transmission system. Involved is the construction of 300 miles of 24-inch diameter pipeline from Liberal (Kansas) to a point east of Denver, 300 miles of field gathering lines and 20,000 com-



Co-ordinated supervision of gas supply activities on a corporate basis was assigned Richard C. Dixon, 42, who was elected Senior Vice President of Panhandle Eastern and Trunkline in August. He formerly was president of Anadarko Production Company. Dixon's 20-year career with the Company includes experience in all phases of gas supply activities.



pressor horsepower, all at a cost of about \$50 Million initially.

An extensive development drilling program is necessary to achieve volume production from the Wattenberg Field. Because the gas is located in a tight geologic zone, it will be necessary to drill about 200 additional wells in order to obtain an initial flow of 100 million cubic feet per day. The 200 additional wells currently contemplated would require an investment of about \$15 Million.

Under its agreement with Amoco to undertake the exploration, the Company advanced \$9 Million for the initial phase of drilling. This sum will be recovered out of future production and thereafter the Company will retain a limited participation in the proceeds of production.

While the initial volumes contemplated as coming into the Panhandle system are not sufficiently large to support expanded sales, this project is significant for two reasons: the Colorado gas will reinforce the Company's ability to meet customers' requirements in the years immediately ahead and the entry into Colorado is an important extension of Panhandle's gas supply area.

Offshore Exploration

In September of 1971 Trunkline obtained a commitment of gas which may be discovered on 45,000 acres offshore Southwestern Louisiana through an advance payment of \$20 Million to the Sun group of six companies, which is actively pursuing exploratory drilling on nine lease blocks acquired in the December, 1970 Federal lease sale. The exploration is being done by the SCAAND group in which Anadarko is a participant. (The progress of offshore drilling is discussed in the Anadarko chapter of this report.) The advance payment agreement provides that

the funds provided by Trunkline will be repaid within a period of seven years.

Trunkline is planning the construction of a new offshore supply system in conjunction with one or more other pipeline companies to bring such gas into its system. The first deliveries from this acreage are contemplated during 1974.

The Pan Eastern Program

An important part of the Company's overall gas supply program is a plan to increase the total of funds available for exploration through a new subsidiary, Pan Eastern Exploration Company. Under this proposal Pan Eastern would invest about \$35 Million over a five-year period with all gas discovered committed to the Company.

The proposal involves the transfer of Company owned production to Pan Eastern which would sell such gas (approximately 100 billion cubic feet annually) to Panhandle at area prices, instead of the current rates based on cost. The area price allowance would provide the funds necessary to support the added exploration contemplated.

In December the FPC Examiner denied approval of the proposal which had been widely endorsed by customers. The Company has filed exceptions to the Examiner's opinion and the matter is now before the Commission for decision.

Arctic Islands Exploration

The Company, in conjunction with Consolidated Natural Gas Company and Texas Gas Transmission Company, agreed to provide \$30 Million for a five-year exploratory drilling program on approximately 7.5 million acres in the Canadian Arctic Islands. Operator of the program will be Dome Petroleum Company Ltd. of Canada which holds exploration permits for the acreage.

The agreement provides that each of the U.S. companies will expend \$2 Million annually for the five-year effort with an option to extend these arrangements for a second five-year period.

This program will test Dome acreage in the Arctic Islands where significant discoveries of gas have been made recently by others.

Coal Gasification

Early this year the Company and Peabody Coal Company engaged M. W. Kellogg Company and American Lurgi to make a feasibility study of the technological and ecological aspects of a coal gasification facility capable of producing 250 million cubic feet of synthetic gas daily, using Illinois and Wyoming coal.

We are also investigating several other coal gasification processes and are participating in the joint gas industry-government research program in this area.

Our total success in overcoming supply difficulties must come in the context of a general and sustained expansion of domestic exploration together with utilization of supplemental supply sources as needed. The projects discussed above, combined with the expanded exploratory effort of Anadarko Production Company, represent a concentrated program to bring supplies available to the transmission systems into balance with existing requirements and thereafter to develop sufficient reserves to expand sales capacity.

Early resolution of the public policy questions dealing with the economic incentive for exploration and the environment will restore a more stable supply-demand relationship nationally. Our resources will continue to be devoted to accomplishments in these vital areas.



Pipeline construction in 1971 was limited to facilities for the attachment of new gas supplies. This scene shows expansion of the Company's Western Oklahoma supply system.

The National Gas Supply Outlook

For the nation as a whole, events during 1971 demonstrated that the spread between available supplies of natural gas and market needs had grown wider. Several major interstate transmission companies, including the Panhandle-Trunkline system, were forced to limit deliveries and many utility distributors throughout the country tightened restrictions on the attachment of new users, primarily large industrial and commercial customers. That the limited volumes of gas flowing to market did not result in more severe consequences was the result partly of mild weather in most sections of the nation and of a concerted effort by transmission and distribution companies to increase underground storage inventories to the maximum. Also mitigating the impact upon customers was the acquisition by transmission companies, particularly on the Gulf Coast, of substantial volumes of emergency purchase gas which was made available from intra-state sources.

With the exception of activities offshore in the Gulf of Mexico, exploratory drilling in the lower 48 states remained at the low levels of the past ten years. While complete data is not yet available, there is every indication that 1971 was the fourth consecutive year in which production exceeded discoveries and additions to reserves nationally. This condition, coupled with the normal decline in deliverability from established sources, not only made it impossible for transmission companies to increase sales capacity but also resulted in limitations upon the volumes of gas flowing to market. It appears that this circumstance may persist for the next few years until programs for new conventional and supplemental supplies can become operative.

Industry Programs

Industry initiative has resulted in programs (1) to explore for new reserves in Alaska and Canada, (2) to invest heavily in offshore drilling in the Gulf of Mexico, and (3) plans to construct synthetic gas plants (SNG), to import liquefied natural gas (LNG) and to hasten coal gasification. Taken together, these projects will materially assist the industry in satisfying the nation's requirements for the clean energy of gas in the long term.

The successful implementation of supplemental supply projects requires the prompt resolution by the appropriate governmental agencies of the policy questions dealing with the regulation of such supplies and with the importation of both LNG and SNG feedstocks.

Supplemental Supplies

The industry, however, has been forced to move ahead with supplemental supply projects in response to the public interest requirement of maintaining adequate supplies. The large capital and resource costs associated with these non-conventional supply sources will result in a cost of gas substantially higher than historic levels. It is estimated that non-conventional supplies will reach the market at prices ranging from 85 cents to as much as \$1.50 per mcf as compared with the average of 43 cents per mcf received by transmission companies for sales of conventional supplies to distribution companies in 1971.

The necessity of such high-cost additional supply sources establishes that past economic and regulatory climate has not kept pace with market demand. Low wellhead prices over the last two decades have acted in two ways to contribute to the current conditions: (a) they have failed to provide adequate incentive to induce sufficient new investment in exploration and

(b) they have permitted a premium product, natural gas, to be sold so far below its value that demand spiraled. The advent of stringent air quality standards in recent years further accentuated demand.

For example, it took ten years of hearings and litigation for the FPC to establish 26 cents per mcf as the price for new gas in Southern Louisiana, and even this rate is subject to further court appeal by several groups, some contending the 26-cent price is too high and others contending it is inadequate to supply needs.

Action Program

It seems apparent that the need for high cost supplementary gas supply sources makes it mandatory for the Commission to take more drastic action on pricing to stimulate additional conventional gas development. Corrective action along the following lines should be accelerated to spare the United States the potentially severe consequences which would result from a prolonged shortage of gas.

1. Current and near-term supply conditions are of such serious national concern that the Commission should consider the establishment of emergency prices for new domestic production while accelerating the national rule-making proceeding dealing with all area prices. In this regard a moratorium on control of new gas prices for a period of three to five years would permit such prices to reach the level necessary for expanded exploratory investment.

2. The wellhead price of existing gas production should be reviewed regularly and revised as necessary to reflect changing supply and market conditions in order to generate the funds needed to sustain domestic exploration. In this connection the FPC should expand the use of the



This jack-up rig is drilling for natural gas in the Gulf of Mexico on acreage acquired by the Sun Oil Company group in which Anadarko is a participant. Water depth at this location is approximately 250 feet.

“rule-making” procedure as the mechanism for such action.

3. Federal offshore leasing must be resumed so that new exploration prospects become available in an orderly manner. At the same time the current bidding practice, which requires large cash bonuses to the Federal government—totaling about \$4 Billion in the last 17 years—should be revised so that such funds can be devoted to actual exploration. The government can maintain its revenue from higher future royalty payments on new leases.

We are confident this nation's undeveloped resources of natural gas, petroleum, coal, oil shale and nuclear are in sufficient abundance to provide an adequate supply of energy free of national security hazards. Appropriate prices together with prompt regulatory action are the keys to development and utilization of these resources. It is our hope that 1972 becomes the year in which the urgency of the nation's future energy needs is matched by the necessary constructive action.

Energy and the Environment

One of the major issues receiving widespread public discussion is the growing controversy involving concern for the physical environment at a time when the nation is faced with a potential shortage of all forms of energy. Conflict over nuclear power plant siting, thermal discharge, surface mining of coal, potential tanker accidents, the use of public lands for resource development of such elements as oil shale, and the Alaskan oil pipeline has erupted in recent years. And late in 1971 legal challenge by three environmental organizations resulted in the suspension of a scheduled offshore lease sale and

placed a new blanket of uncertainty over further offerings of Gulf of Mexico acreage which holds significant geologic promise of important future oil and gas discoveries. All of these issues have had the



The clean energy of natural gas is transported to market with virtually nothing visible above ground. This marker is the only evidence of the Panhandle natural gas transmission system beneath fertile farmland in the midwest.

effect of slowing the orderly development of energy capacity at a time when current and forecast demand is at record levels.

U. S. Energy Consumption

As the most advanced industrial nation in the world, the United States consumes more energy than the combined total of Great Britain, Japan, West Germany and the Soviet Union. Even though the United States has but six percent of the world's population, this nation consumes one-third of the world's annual energy production. Adequate supplies of energy are virtually indispensable to a strong and healthy economy. Yet, the developing national posture on environmental quality is having the effect of permitting extreme positions to become a barrier to orderly and prudent development of adequate supplies of clean energy which, of course, is essential to improving the environment.

We believe that it is unnecessary for the nation to be confronted with but one option—an enhanced environment and insufficient energy supplies. Modern technology reinforced by a commitment to reasonable standards of environmental quality can assure the nation of adequate supplies of clean energy within the range of acceptable changes in the environment.

New Leasing Essential

Of paramount concern to the Company and the natural gas industry is the clouded future of additional leasing offshore in the Gulf of Mexico. Taking into account that five to seven years are required to discover and bring into production a new gas field, an orderly and regular program of lease offerings is essential to add new reserves as established production is depleted normally.

The Department of the Interior, which

administers offshore leasing, announced a five-year program in 1971, but the implementation of this plan has been delayed by the legal challenge from environmental groups noted above.

In the 17 years of Federal offshore leasing (1954-71) approximately 8,000 wells have been drilled in the coastal waters. According to data compiled by the Department of the Interior, during this period 25 blow-outs of offshore wells occurred of which 17 leaked only gas which is non-polluting. Major pollution resulted from only three of the incidents and scientific review currently indicates that little permanent damage occurred to the marine ecology or adjoining shore lands. Such an impressive record clearly indicates a minimal and acceptable environmental risk is assumed in continued offshore exploration. Such risk would appear to be further diminished when weighed against the potential of exploration—new reserves of vitally needed oil and natural gas produced from a source free of hazards to national security.

Abundant Resources

It is clear to us that the nation has the capability of adequately meeting future energy needs from known but undeveloped domestic resources of natural gas, oil, coal, and nuclear energy with minimum dependence on foreign sources while, at the same time, enhancing the quality of the environment. The attainment of energy supply adequacy will necessarily involve higher costs but failure in this vital area can bring an even greater price in terms of stunted economic growth and endangered national security.

Future energy needs and environmental quality are not in irreconcilable conflict but reason, rather than emotion, must prevail to achieve sound public policy.

Anadarko Production Company

Earnings for this wholly-owned subsidiary in 1971 were \$2.4 Million as compared with \$2.8 Million in 1970. Gross revenues increased to \$28 Million in 1971 from \$25 Million in the prior year.

Amortization of nonproducing leaseholds offshore and dry hole costs were major factors depressing 1971 earnings. Lease amortization expense increased to \$2.7 Million in 1971 compared to \$1.6 Million in 1970. Dry hole costs charged directly against income amounted to approximately \$4.7 Million in 1971, a level comparable to the previous year. These included about \$2 Million from wells begun in 1970 and abandoned in 1971.

Offshore Activities

The industry mounted a large scale effort during 1971 to explore the 116 blocks of acreage offshore Southwestern Louisiana acquired in the December, 1970 Federal lease sale. Although all offshore operators, including the Sun Oil Company group (SCAAND) in which Anadarko is a participant, withhold specific results of drilling to protect future acreage positions, reliable trade sources report that about 170 exploratory wells were drilled during the year. A total of 80 of the 116 lease

blocks had at least one test; production appears to have been established on 39 blocks; no data was reported on 13 others. Furthermore, 16 multiple well drilling platforms, including one for the Sun group, were ordered for installation during 1972.

Data from the Department of the Interior indicates that 46 discoveries were made offshore Louisiana in 1971 of which 22 were classed as gas fields and the balance contained both oil and gas. Further drilling and acreage development in 1972 will progress rapidly, limited only by the availability of rigs and facilities to build and install platforms—all essential to discovery and production.

During 1971 the Sun group, which paid \$64 Million for leases on 45,000 acres, was able to drill only nine wells in testing five of its nine blocks because of limited availability of drilling rigs. In addition this group shared in the cost of five other wells on adjoining acreage in return for geologic data. These activities represented a cost of about \$6 Million of which \$700,000 was provided by Anadarko.

Of the total of 14 wells undertaken by the Sun group, two were abandoned at relatively shallow depths because of operating difficulties. Each of the other 12 wells reached target sands and six were deemed successful, establishing gas production on four blocks of acreage.

The availability of a new drilling rig will enable the Sun group to accelerate its exploration in 1972. Current plans call for the expenditure of about \$15 Million on these leases in 1972 of which Anadarko will provide about \$2 Million.

New Offshore Acreage

Anadarko expanded its participation in offshore exploration in two new projects in 1971. In October an investment of about \$600,000 was made in the ALAMOS



Robert M. Stephens, 47, a veteran of 20 years experience in the petroleum industry, was named President of Anadarko in August, succeeding R. C. Dixon who was named Senior Vice President of the parent company and Trunkline. Stephens' background includes oil and gas exploration activities in the Rocky Mountain and Mid-Continent areas of the United States, in Canada and overseas.

group of companies to acquire a 15 percent interest in 49,000 acres offshore Texas on which two producing gas wells have been developed. The ALAMOS group, of which the Sun Oil Company is also the operator, plans further exploration of this acreage and will participate in the bidding for new offshore Texas leases which is scheduled for December, 1972.

In another move Anadarko joined Sun and other companies to bid on other acreage scheduled for Federal sale in May, 1972 in the Southwest Louisiana offshore region, the same area where the current exploration is underway.

Anadarko was a member of a group which submitted bids in December, 1971 on acreage in the Southeast Louisiana offshore area, but this lease sale was enjoined by litigation initiated by three environmental groups. As a result the Department of the Interior cancelled the sale but indicated an intent to reschedule the bidding at a later date.

Drilling Results

Anadarko experienced a more favorable success ratio in its 1971 drilling program than in recent years. During the year Anadarko participated in 99 wells (59 net) at approximately the same cost as in the prior year.

Of the total wells drilled 46 were considered exploratory and resulted in nine completions as gas producers, three as oil producers and 34 dry holes. Exploratory drilling accounted for 67 percent of the drilling funds spent. Anadarko drilled 53 development wells of which 11 resulted in gas, 35 in oil and seven were dry holes.

The 1971 success ratio for exploratory drilling was 26 percent (8 percent in 1970) and was 87 percent for development drilling (66 percent in 1970).

Included among the 1971 exploratory wells were two deep tests of the Anadarko Basin, which were nonproductive in the target sands at 20,000 feet. These wells, however, were completed at shallower depths, one as an oil well and the other as a gas well. The two wells represent an expenditure (net to Anadarko) of \$900,000 including completion costs and provide valuable information about the large blocks of acreage held by Anadarko in the area.

For 1972 Anadarko will spend about the same amount of money for drilling but will expand its opportunities by participating in a larger number of prospects.

Lease Activities

During 1971 Anadarko acquired new leases covering about 255,000 acres, of which about 40 percent are located in the Rocky Mountain region.

At the same time, Anadarko relinquished leases on about 800,000 acres. Leaseholds covering 1.5 million acres were held at year-end.

Lease expenditures amounted to about \$1.6 Million as compared with \$12.8 Million in 1970 when the first major offshore lease position was taken. Lease costs are expected to be substantially greater in 1972 dependent upon the schedule of offshore leasing.

Oil and Gas Sales

Sales of crude oil and condensate amounted to 4.1 million barrels in 1971 as compared with 3.8 million barrels in 1970. Sales of liquids totaled 34.7 million gallons, comparable to 1970 sales. Anadarko sold 73 billion cubic feet of natural gas of which 36 billion cubic feet was purchased by Panhandle. This was slightly less than 1970.

Other Activities

Secondary recovery operations continue to be an important aspect of Anadarko's activities. During 1971 three additional secondary recovery units became operative while three other units reached their economic limits and were sold or abandoned, leaving the number of such fields now in operation at 47. Secondary recovery accounted for about \$1 Million of capital spending in 1971 and contributed 38 percent of total crude oil sales.

Plans for 1972 include activation of five new secondary recovery operations and continued development of existing properties, at a cost of approximately \$2 Million.

Financial Review

Capital outlay in 1971 amounted to \$11 Million, as compared with \$25 Million in 1970. Major components in 1971 were \$7 Million for drilling, \$2 Million for lease acquisition and evaluation, \$1 Million for secondary recovery projects and \$1 Million for miscellaneous facility and property purchases.

At year end 1971 Anadarko's investment in plant and property amounted to \$100 Million, consisting of \$72 Million in producing oil and gas wells, \$18 Million in undeveloped leases, and \$10 Million in extraction plants, pipelines and miscellaneous facilities. Anadarko owned an interest in 3,156 producing oil and gas wells (1,026 net).

In last year's Annual Report we stated that the use of full cost accounting would be considered. A determination as to whether it should be adopted has been deferred pending the development of Anadarko's offshore acreage.

For 1972 Anadarko plans to expend about \$23 Million in all phases of its business with continued emphasis on offshore exploration and leasing.



The search for natural gas takes drillers to remote locations, such as the marshland of Southern Louisiana where it was necessary to dredge a canal to move the drilling rig to an Anadarko well site.

Consolidated Statement of Income

	Year Ended December 31,	
	1971	1970
Operating Revenues		
Gas sold for resale—interstate	\$379,292,781	\$351,136,066
Industrial sales	26,217,965	26,084,296
Export and other gas sales	10,879,132	9,767,328
Refined products and processing natural gas	11,180,847	14,395,923
Crude oil and miscellaneous	23,232,086	17,820,382
Total operating revenues	450,802,811	419,203,995
Operating Expenses and Taxes		
Gas purchased	202,246,441	180,715,310
Operation	73,754,558	70,252,204
Maintenance	12,656,969	13,212,645
Depreciation, depletion and amortization <i>Note 4</i>	52,766,259	47,546,866
State, local and miscellaneous Federal taxes	17,890,705	17,571,225
Federal income taxes <i>Note 4</i>	3,774,641	5,087,196
Deferred Federal income taxes—net <i>Note 4</i>	11,856,059	8,524,400
Investment tax credit <i>Note 4</i>	4,673,000	3,686,850
Total operating expenses and taxes	379,618,632	346,596,696
Operating income	71,184,179	72,607,299
Other Income		
Dividends—National Distillers and Chemical Corporation	2,700,000	2,700,000
Equity in earnings of National Helium Corporation <i>Notes 1 and 6</i>	2,822,566	2,694,123
Other dividends and miscellaneous	1,916,441	2,306,199
Amortization of investment tax credit	2,003,600	1,465,966
Total other income	9,442,607	9,166,288
Gross income	80,626,786	81,773,587
Interest and Other Deductions		
Interest on long-term debt	36,861,213	35,124,701
Other interest and deductions	1,956,679	2,413,146
Interest charged to construction (credit)	(1,266,010)	(2,470,039)
Discount on purchases of debt securities for retirement	(2,686,399)	(2,916,705)
Dividends on preferred stock of subsidiary	2,820,881	2,233,329
Total interest and other deductions	37,686,364	34,384,432
Net Income	\$ 42,940,422	\$ 47,389,155
Earnings per common share after preferred dividends of \$2,603,299 in 1971 and \$2,617,490 in 1970	\$2.80	\$3.15

(See notes to consolidated financial statements)

Consolidated Balance Sheet

Assets	December 31,	
	1971	1970
Plant, Property and Equipment, at original cost	\$1,404,220,462	\$1,363,085,062
Less accumulated depreciation, depletion and amortization	476,032,247	429,318,772
Net plant, property and equipment	928,188,215	933,766,290
 Advance Payments for Gas	 44,922,383	 12,716,435
 Investments		
National Distillers and Chemical Corporation Common Stock, stated at cost (<i>Approximate market—\$48,000,000, 1971 and 1970</i>)	7,420,491	7,420,491
Other <i>Note 1</i>	23,799,883	25,684,149
Total investments	31,220,374	33,104,640
 Current Assets		
Cash	29,073,057	21,602,648
Temporary cash investments, at cost	—	800,000
Accounts and notes receivable	48,918,161	50,094,433
Inventory and supplies, at average cost	18,525,290	15,026,378
Other prepayments and special deposits	5,639,880	6,369,630
Total current assets	102,156,388	93,893,089
 Deferred Charges		
Unamortized debt expense	3,603,167	3,930,216
Other	6,236,407	4,254,353
Total deferred charges	9,839,574	8,184,569
	<u>\$1,116,326,934</u>	<u>\$1,081,665,023</u>

(See notes to consolidated financial statements)

Liabilities	December 31,	
	1971	1970
Capitalization		
<i>Notes 2 and 3</i>		
Stockholders' equity:		
Common stock	\$ 22,609,867	\$ 22,277,484
Paid-in capital	35,432,469	27,732,874
Retained earnings	211,524,873	197,143,190
Total common stockholders' equity	269,567,209	247,153,548
Preferred stock	39,146,300	40,021,600
Total stockholders' equity	308,713,509	287,175,148
Preferred stock of subsidiary held by public	39,950,000	40,600,000
Long-term debt	562,934,244	592,489,774
Total capitalization	911,597,753	920,264,922
Current Liabilities		
Long-term debt due within one year	29,275,068	28,327,650
Notes payable	26,200,000	5,000,000
Accrued Federal income taxes <i>Note 4</i>	3,069,483	3,320,767
Accounts payable and accrued liabilities	67,611,633	60,818,611
Total current liabilities	126,156,184	97,467,028
Reserves and Other Liabilities		
Deferred Federal income taxes <i>Note 4</i>	45,443,960	33,587,901
Deferred investment tax credit <i>Note 4</i>	29,070,040	26,403,936
Other, including contributions in aid of construction	4,058,997	3,941,236
Total reserves and other liabilities	78,572,997	63,933,073
	<u>\$1,116,326,934</u>	<u>\$1,081,665,023</u>

(See notes to consolidated financial statements)

Consolidated Statement of Paid-In Capital and Retained Earnings

	Year Ended December 31,	
	1971	1970
Paid-In Capital		
Balance at beginning of year (1970 net of common stock reacquired \$555,714)	\$ 27,732,874	\$ 25,684,038
Discount, less expense, applicable to preferred stock purchased and retired	81,224	128,683
Excess of proceeds over stated value of common stock issued under stock option plan— 110,297 shares (1971) 58,285 shares (1970)	3,606,832	1,920,153
Net assets acquired in merger with Missouri-Kansas Pipe Line Company, exclusive of 543,724 shares of common stock placed in treasury, over stated value of common stock issued therefor	4,011,539	—
Balance at end of year	<u>\$ 35,432,469</u>	<u>\$ 27,732,874</u>
Retained Earnings		
Balance at beginning of year	\$197,143,190	\$176,548,729
Net income for the year	42,940,422	47,389,155
	<u>240,083,612</u>	<u>223,937,884</u>
Deduct		
Cash dividends:		
4% preferred stock	81,710	108,319
4.64% series preferred stock	801,589	805,989
8.60% series preferred stock	1,720,000	1,703,182
Common stock	25,955,440	24,177,204
	<u>28,558,739</u>	<u>26,794,694</u>
Balance at end of year	<u>\$211,524,873</u>	<u>\$197,143,190</u>

(See notes to consolidated financial statements)

Consolidated Statement of Changes in Financial Position

	Year Ended December 31,	
	1971	1970
Funds Provided		
Net income	\$ 42,940,422	\$ 47,389,155
Charges (credits) not requiring funds:		
Depreciation, depletion and amortization	54,992,724	49,523,894
Deferred Federal income taxes—net <i>Note 4</i>	11,856,059	8,524,400
Investment tax credit—net <i>Note 4</i>	2,669,400	2,220,884
National Helium Corporation <i>Notes 1 and 6</i> :		
Equity in earnings	(2,822,566)	(2,694,123)
Dividends received	3,120,000	—
Funds provided from operations	112,756,039	104,964,210
Issuance of securities:		
Debentures	—	40,000,000
Preferred stock	—	20,000,000
First mortgage bonds	—	40,000,000
Long-term notes payable	12,500,000	—
Common stock	7,950,754	2,011,223
Other items—net	1,829,972	(3,219,220)
Total	135,036,765	203,756,213
Funds Used		
Additions to plant, property and equipment	51,380,329	107,119,568
Cash dividends—common and preferred stock	28,558,739	26,794,694
Securities retired for sinking fund	34,317,606	35,343,313
Advance payments for gas	32,205,948	11,990,463
Long-term notes payable	9,000,000	20,000,000
Total	155,462,622	201,248,038
Increase (decrease) in working capital	\$ (20,425,857)	\$ 2,508,175
Changes In Working Capital		
Increase (decrease) in current assets:		
Cash and cash investments	\$ 6,670,409	\$ (779,472)
Inventory and supplies	3,498,912	—
Accounts and notes receivable	(1,176,272)	5,525,389
Other items—net	(729,750)	1,519,754
Decrease (increase) in current liabilities:		
Notes payable	(21,200,000)	7,800,000
Accounts payable and accrued liabilities	(6,541,738)	(8,739,536)
Long-term debt due within one year	(947,418)	(2,817,960)
Increase (decrease) in working capital	\$ (20,425,857)	\$ 2,508,175

(See notes to consolidated financial statements)

Notes to Consolidated Financial Statements

1. Principles of Consolidation: The consolidated financial statements include the accounts of Panhandle and all significant subsidiaries. Certain amounts previously reported for 1970 have been reclassified to conform to current presentation.

Other investments include the Company's 50% interest in National Helium Corporation's equity which is represented by an investment of \$2,600,000 in common stock and undistributed earnings of \$8,700,081 and \$8,997,515 at December 31, 1971 and 1970, respectively. For information relating to the status of the helium supply contract with the Department of the Interior, see Note 6, "Litigation".

Other investments also include \$7,029,248 at December 31, 1971 and 1970, representing the excess of cost over equity acquired in the assets of Trunkline Gas Company. In the opinion of management there has been no diminution of value of the investment in Trunkline Gas Company, accordingly the excess cost is not being amortized.

2. Capital Stock:

2. Capital Stock:	Panhandle				Trunkline		
	Common	4% Cumulative Preferred	Cumulative Preferred		Cumulative Preferred		
Par value per share	None	\$100.00	\$100.00		\$100.00		
Shares authorized:							
December 31, 1971	20,000,000	19,815	500,000		441,649		
December 31, 1970	20,000,000	26,885	500,000		448,149		
Shares outstanding:			4.64% Series	8.60% Series	\$5.15 Series C	4.75% Series	9.12% Series
December 31, 1971	14,470,315*	19,815	171,648	200,000	63,000	136,500	200,000
December 31, 1970	14,257,590*	26,885	173,331	200,000	66,000	140,000	200,000

*Net of 570,824 shares in Treasury at December 31, 1971 and 27,100 shares at December 31, 1970.

The preferred stocks are redeemable through operation of sinking funds and are callable at various premium prices.

Under the 1966 Qualified Stock Option Plan, options covering 400,000 shares of authorized but unissued Common Stock of Panhandle may be granted to Key Employees of Panhandle and its subsidiaries before April 1, 1976 to purchase shares of the Company's stock at market price on date of grant. The options are exercisable in annual installments beginning one year from the date of the option with all options expiring five years after grant. Under the Plan, options have been granted to purchase 364,500 shares at prices ranging from \$33.75 to \$37.19 per share. During the years 1971 and 1970 options on 110,297 shares and 58,285 shares, respectively, were exercised at prices ranging from \$33.75 to \$37.19 per share. Of the 216,848 shares reserved for options at December 31, 1971, options to purchase 92,420 shares were outstanding at an average price of \$34.83. Of the 327,145 shares reserved for options at December 31, 1970, options to purchase 261,985 shares were outstanding at an average price of \$34.46.

The above stock options do not have a dilutive effect on the earnings per common share computation which is based on weighted average shares of common stock outstanding during the respective periods.

3. Long-term Debt (000's Omitted):

	Principal	
	1971	1970
Panhandle:		
Sinking Fund Debentures		
3¼ % due August 1, 1973	\$ 1,125	\$ 2,500
3½ % due November 1, 1974	9,000	13,000
2¾ % due June 1, 1975	5,000	6,500
4¾ % due December 1, 1978	28,200	30,400
4¾ % due October 1, 1982	44,000	46,000
4.60 % due February 1, 1984	33,688	34,730
4¾ % due May 1, 1985	34,000	36,000
5¾ % due February 1, 1987	30,000	32,000
6½ % due October 1, 1987	31,000	33,000
7¼ % due January 1, 1989	27,613	28,496
8⅝ % due October 1, 1989	36,500	37,900
8⅝ % due November 1, 1990	37,900	39,300
	318,026	339,826
Less unamortized discount	561	638
Total	317,465	339,188
Trunkline:		
First Mortgage Pipe Line Bonds (sinking fund)		
3⅝ % due November 1, 1975	3,000	4,000
5¼ % due November 1, 1979	30,800	34,800
5 % due January 1, 1982	24,800	26,250
6½ % due August 1, 1986	30,000	32,000
6¾ % due October 1, 1987	28,700	30,500
9¼ % due April 15, 1990	39,100	40,000
Notes Payable	81,000	80,000
Total	237,400	247,550
Anadarko:		
Bank Notes 4¾ %-5 % due 1972-1973	—	5,500
Notes Payable	8,000	—
Other Notes	70	252
Total	8,070	5,752
Consolidated Total	\$562,935	\$592,490

Sinking fund and installment payments applicable to long-term debt, exclusive of Trunkline's notes payable, will be \$20,352,000 and \$33,196,000 for the years 1972 and 1973, respectively, after deducting prepayments of \$12,556,000 for 1972 and \$449,000 for 1973. Sinking fund and installment requirements for the years 1974 through 1976 approximate \$36,200,000 annually.

Trunkline's notes payable are outstanding under its Revolving Credit Agreement, as amended, which provides for the repayment of Trunkline's long-term notes payable in ten equal semi-annual payments commencing August, 1972, the payments being based upon the amount outstanding at February 1, 1972.

Under the most restrictive provisions of the various indentures and the Certificate of In-

corporation, consolidated retained earnings of \$134,511,537 at December 31, 1971 and \$125,028,733 at December 31, 1970 are not restricted as to the payment of dividends.

4. Federal Income Taxes: The Company and its subsidiaries depreciate additions to plant, property and equipment for Federal income tax purposes, using accelerated methods permitted by the Internal Revenue Code. Subsequent to publishing the financial statements of December 31, 1970, the Company and Trunkline adopted shorter guideline asset lives for income tax purposes and filed the 1970 consolidated income tax return on that basis. Accordingly, the Federal income tax provision for 1970 has been reclassified for the resulting deferral of Federal income taxes. The estimated useful lives and straight-line method are unchanged in computing depreciation for financial accounting purposes.

For property placed in service prior to January 1, 1970 the FPC has required the Company and Trunkline to flow through to jurisdictional customers the reduction in Federal income taxes resulting from the use of liberalized depreciation; however, effective November 14, 1971 the Company is deferring such reduction in Federal income taxes pursuant to the rate settlement.

For property placed in service after December 31, 1969 the Company and Trunkline are deferring the reduction of Federal income taxes attributable to the use of accelerated methods permitted by the Internal Revenue Code.

The Company and its subsidiaries are deferring the investment tax credit and amortizing it over the lives of the properties. After utilizing \$4,673,000 of investment tax credit to reduce the amount of Federal income taxes for 1971, there remains a carry-over in the amount of approximately \$6.5 Million which will be used to reduce payments of Federal income taxes in 1972 and subsequent years.

5. Pensions: The Company and its subsidiaries have a pension plan covering all of their permanent employees. The amounts contributed for 1971 and 1970 were \$3,811,510 and \$4,100,000, respectively. It is the companies' policy to fund current service costs and to amortize over a period of ten years past service costs arising from changes in plan benefits. The fair market value of the assets of the plan approximates the value of vested benefits.

6. Litigation: The Company owns 50% of the common stock of National Helium Corporation, whose financial results are reported by the Company under the equity method of accounting. Accordingly, the Company has included \$2,822,566 and \$2,694,123 in income for 1971 and 1970, respectively. The major source of revenues and income of National Helium Corporation is from the extraction and sale of helium under a long-term contract with the United States Government. On January 26, 1971, the Department of the Interior served notice of termination of the helium supply contracts upon those companies supplying helium under the helium conservation program. On March 27, 1971, National Helium Corporation obtained a preliminary injunction from the United States District Court for the District of Kansas temporarily restraining the government from terminating the helium conservation program and three of the helium supply contracts, including the National Helium Corporation contract. On October 4, 1971, the United States Court of Appeals for the Tenth Circuit affirmed the action of the District Court and held that the injunction should remain effective at least until the government complied with the National Environmental Policy Act. The time for petitioning the United States Supreme Court for review has expired. It is unknown what action the government intends to take with respect to termination of the conservation program.

The Company is a party to litigation filed in the United States District Court involving questions of title and other rights respecting helium being extracted from the Company's natural gas stream at Liberal, Kansas, by National Helium Corporation. On March 2, 1971,

the United States Court of Appeals for the Tenth Circuit reversed the decision of the trial court, which decision was favorable to the Company, and held adversely to the position of the Company and National Helium Corporation. The court confirmed that the Company obtained good title to the helium content of gas purchased from producers but held that the producers are entitled to be paid the value of the helium which is extracted by National Helium Corporation from the Company's gas stream and that the producers should account to the royalty owners for a royalty share of the proceeds. The case was remanded to the District Court to determine the value of the helium. Requested review of the decision was denied by the United States Supreme Court on January 24, 1972. It is anticipated that further proceedings will be held during 1972 in the trial court.

Since the commencement of operations of National Helium in July, 1963, the Company has sold to National Helium 10,382,801 mcf of helium for which it received an average of \$2.16 per mcf or a total of \$22,376,008. Of the volumes of helium sold, it is estimated that 72% (7,475,617 mcf) represented helium extracted from gas purchased by the Company from others and 28% (2,907,184 mcf) represented helium extracted from gas produced by the Company from its own leases. The Court's decision requires no payment for Company produced gas, other than to royalty owners.

The Company has established a reserve of \$4,500,000 before taxes with respect to potential liability in this case, covering claims by producers and the Company's royalty owners for the year 1971, and claims by royalty owners pertaining to purchased gas and Company produced gas for the period 1963-1970. Of the amount received by the Company, there remains a contingent liability to producers and royalty owners of approximately \$6,500,000 after taxes, based on the assumption that the Company's liability will not be in excess of the amount received from National Helium.

In this connection, it is the position of the Company that the amount to which the producers and royalty owners may be entitled under the Court's decision is substantially less than the price received by the Company at the helium plant inlet. Conversely, the producers and royalty owners may assert a value at the wellhead in excess of the amount received by the Company, but in the event such a determination is ultimately made by the court, the U. S. Government is obligated to reimburse the Company for any value determined in excess of approximately \$3.15 per mcf of helium. In addition, in the opinion of counsel for the Company, valid defenses exist with respect to the claims of certain producers which will be asserted before the trial court.

Any amount which the court may find to be due to producers and royalty owners, in excess of the present reserve of \$4,500,000, will be charged to retained earnings and allocated to applicable prior years in accordance with Accounting Principles Board Opinion No. 9.

PEAT, MARWICK, MITCHELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS
HOUSTON, TEXAS 77002

To the Board of Directors of Panhandle Eastern Pipe Line Company:

We have examined the consolidated balance sheet of Panhandle Eastern Pipe Line Company and Subsidiaries as of December 31, 1971 and 1970 and the related consolidated statements of income, paid-in capital and retained earnings and changes in financial position for the respective years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the financial position of Panhandle Eastern Pipe Line Company and Subsidiaries at December 31, 1971 and 1970, and the results of their operations and the changes in their financial position for the respective years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

February 11, 1972

Peat, Marwick, Mitchell & Co.

Summary of Financial and Statistical Data (Consolidated) 1962-1971

Year ended December 31,	1971	1970	1969
Operating Revenues			
Gas sold for resale—interstate	\$379,292,781	\$351,136,066	\$311,418,903
Industrial sales	26,217,965	26,084,296	25,853,358
Export sales	6,303,132	4,490,075	4,368,659
Other gas sales	4,576,000	5,277,253	4,215,183
Refined products and processing natural gas	11,180,847	14,395,923	16,956,490
Crude oil and miscellaneous	23,232,086	17,820,382	16,779,169
Total operating revenues	<u>450,802,811</u>	<u>419,203,995</u>	<u>379,591,762</u>
Operating Expenses and Taxes			
Gas purchased	202,246,441	180,715,310	162,788,212
Operation	73,754,558	70,252,204	62,929,737
Maintenance	12,656,969	13,212,645	11,620,123
Depreciation, depletion and amortization	52,766,259	47,546,866	44,551,252
State, local and miscellaneous Federal taxes	17,890,705	17,571,225	16,244,431
Federal income taxes	15,630,700	13,611,596	6,161,198
Investment tax credit	4,673,000	3,686,850	7,046,635
Total operating expenses and taxes	<u>379,618,632</u>	<u>346,596,696</u>	<u>311,341,588</u>
Operating income	<u>71,184,179</u>	<u>72,607,299</u>	<u>68,250,174</u>
Other Income			
Dividends—National Distillers and Chemical Corporation	2,700,000	2,700,000	2,700,000
Equity in earnings of National Helium Corporation	2,822,566	2,694,123	2,487,413
Other dividends and miscellaneous	1,916,441	2,306,199	1,230,735
Gain on sales of assets	—	—	—
Amortization of investment tax credit	2,003,600	1,465,966	1,378,334
Total other income	<u>9,442,607</u>	<u>9,166,288</u>	<u>7,796,482</u>
Gross income	<u>80,626,786</u>	<u>81,773,587</u>	<u>76,046,656</u>
Interest and Other Deductions			
Interest on long-term debt	36,861,213	35,124,701	32,508,895
Other interest and deductions	1,956,679	2,413,146	4,003,300
Interest charged to construction (credit)	(1,266,010)	(2,470,039)	(2,024,444)
Discount on purchase of debt securities for retirement	(2,686,399)	(2,916,705)	(2,158,971)
Dividends on preferred stock of subsidiary	2,820,881	2,233,329	1,031,938
Total interest and other deductions	<u>37,686,364</u>	<u>34,384,432</u>	<u>33,360,718</u>
Net Income	<u>\$ 42,940,422</u>	<u>\$ 47,389,155</u>	<u>\$ 42,685,938</u>
Earnings and Dividends			
Dividends paid on preferred stock	\$ 2,603,299	\$ 2,617,490	\$ 1,312,108
Earnings available for common stock:			
Amount	40,337,123	44,771,665	41,373,830
Per share	2.80	3.15	2.91
Cash dividends paid on common stock:			
Amount	25,955,440	24,177,204	22,718,688
Per share	1.80	1.70	1.60
Shares of common stock outstanding (average)	14,405,576	14,219,175	14,199,305

1968	1967	1966	1965	1964	1963	1962
274,196,570	\$243,783,375	\$227,294,520	\$211,434,029	\$202,801,115	\$201,350,746	\$172,061,632
25,896,390	26,222,032	27,230,596	25,199,020	23,649,490	19,991,010	17,819,190
7,227,902	9,734,815	6,840,953	4,433,705	1,650,028	2,084,372	1,649,888
4,230,006	3,884,093	2,458,732	2,191,901	1,953,008	1,395,859	4,049,896
14,446,241	13,816,058	12,313,302	12,776,612	11,224,358	9,298,430	9,245,433
10,734,028	9,252,177	9,194,699	7,335,316	5,585,346	4,400,216	4,747,601
<u>336,731,137</u>	<u>306,692,550</u>	<u>285,332,802</u>	<u>263,370,583</u>	<u>246,863,345</u>	<u>238,520,633</u>	<u>209,573,640</u>
149,075,135	133,991,472	118,446,588	105,817,282	98,504,225	93,772,577	81,167,785
57,471,281	51,731,291	46,606,905	43,551,577	41,620,576	37,192,096	37,537,263
10,984,301	10,058,296	9,071,676	8,859,792	8,286,688	7,498,513	7,179,308
39,611,350	36,468,234	32,793,547	28,849,835	26,316,639	25,217,449	22,721,421
15,073,674	13,208,974	11,706,640	10,137,722	8,956,667	9,074,017	7,805,934
3,676,218	3,934,367	12,716,647	16,968,700	14,257,644	23,930,700	15,441,600
2,086,592	4,270,793	5,415,557	3,967,784	6,584,762	—	—
<u>277,978,551</u>	<u>253,663,427</u>	<u>236,757,560</u>	<u>218,152,692</u>	<u>204,527,201</u>	<u>196,685,352</u>	<u>171,853,311</u>
<u>58,752,586</u>	<u>53,029,123</u>	<u>48,575,242</u>	<u>45,217,891</u>	<u>42,336,144</u>	<u>41,835,281</u>	<u>37,720,329</u>
2,700,000	2,700,000	2,400,000	2,100,000	1,800,000	1,800,000	1,800,000
2,507,581	3,078,195	2,815,290	2,223,603	1,484,960	546,350	—
894,056	749,133	780,570	837,535	1,357,430	1,383,342	632,358
—	1,588,503	—	—	—	—	—
<u>1,168,035</u>	<u>980,337</u>	<u>728,718</u>	<u>479,571</u>	<u>376,195</u>	<u>—</u>	<u>—</u>
<u>7,269,672</u>	<u>9,096,168</u>	<u>6,724,578</u>	<u>5,640,709</u>	<u>5,018,585</u>	<u>3,729,692</u>	<u>2,432,358</u>
<u>66,022,258</u>	<u>62,125,291</u>	<u>55,299,820</u>	<u>50,858,600</u>	<u>47,354,729</u>	<u>45,564,973</u>	<u>40,152,687</u>
25,933,405	19,613,046	16,327,927	14,377,482	13,525,917	12,622,365	10,877,488
3,233,059	3,808,876	2,374,623	846,644	1,615,837	3,459,625	3,395,101
(3,229,877)	(1,761,876)	(1,491,344)	(673,551)	(488,279)	(792,281)	(1,294,817)
(1,583,067)	(883,898)	(509,838)	(534,511)	(197,717)	(490,097)	(478,079)
<u>1,047,389</u>	<u>1,062,838</u>	<u>1,078,289</u>	<u>1,157,018</u>	<u>1,249,189</u>	<u>1,357,378</u>	<u>1,488,915</u>
<u>25,400,909</u>	<u>21,838,986</u>	<u>17,779,657</u>	<u>15,173,082</u>	<u>15,704,947</u>	<u>16,156,990</u>	<u>13,988,608</u>
<u>40,621,349</u>	<u>\$ 40,286,305</u>	<u>\$ 37,520,163</u>	<u>\$ 35,685,518</u>	<u>\$ 31,649,782</u>	<u>\$ 29,407,983</u>	<u>\$ 26,164,079</u>
1,000,008	\$ 1,037,206	\$ 1,084,489	\$ 1,168,808	\$ 1,186,873	\$ 1,222,503	\$ 501,008
39,621,341	39,249,099	36,435,674	34,516,710	30,462,909	28,185,480	25,663,071
2.79	2.77	2.57	2.45	2.17	2.02	1.85
22,710,000	22,699,518	21,205,923	19,367,224	16,807,399	14,982,701	13,534,853
1.60	1.60	1.50	1.38	1.20	1.08	.98
14,196,765	14,193,045	14,154,548	14,116,000	14,024,398	13,978,694	13,884,834

Summary of Financial and Statistical Data (Consolidated) 1962-1971

Annual Gas Sales (thousands of cubic feet)

	1971	1970	1969	1968
Gas sold for resale—interstate:				
Michigan	430,675,977	407,941,913	379,650,374	341,499,501
Indiana	195,075,172	190,971,828	177,593,041	163,623,685
Illinois	194,951,525	192,876,676	172,797,549	163,490,844
Ohio	159,200,412	153,858,935	152,870,202	147,013,940
Missouri	39,919,242	38,473,738	34,485,577	31,944,154
Texas, Oklahoma and Kansas	11,812,009	12,197,959	11,974,686	12,288,011
Other states	6,824,116	4,093,349	3,759,873	3,757,965
Total gas sold for resale	1,038,458,453	1,000,414,398	933,131,302	863,618,100
Industrial sales	65,347,072	66,619,793	66,457,274	66,797,053
Export sales	14,487,766	10,812,866	11,652,082	20,434,161
Other gas sales	22,340,303	27,617,069	22,007,709	22,640,671
Total gas sales	1,140,633,594	1,105,464,126	1,033,248,367	973,489,985

Capital Structure (000's Omitted)

	1971		1970		1969		1968	
Long-term debt	\$ 562,934	62%	\$ 592,490	64%	\$ 567,936	67%	\$ 540,732	69%
Preferred stock	79,097	9	80,622	9	61,267	7	42,804	5
Common stock equity	269,567	29	247,153	27	224,419	26	205,385	26
Total	\$ 911,598	100%	\$ 920,265	100%	\$ 853,622	100%	\$ 788,921	100%

Plant, Property and Equipment (including advance payments)

	1971	1970	1969	1968
Gross	\$1,449,142,845	\$1,375,801,497	\$1,269,981,029	\$1,196,635,847
Depreciation, depletion and amortization	476,032,247	429,318,772	389,887,696	351,471,951
Net	\$ 973,110,598	\$ 946,482,725	\$ 880,093,333	\$ 845,163,896

Gross Annual Property Additions (including advance payments)

	1971	1970	1969	1968
Panhandle	\$ 32,588,049	\$ 55,659,301	\$ 31,235,042	\$ 49,981,534
Trunkline	34,889,941	41,316,535	43,693,802	101,096,674
Anadarko	5,817,279	20,580,854	7,899,323	8,371,615
Other	10,291,008	1,553,341	3,955	38,996
Total	\$ 83,586,277	\$ 119,110,031	\$ 82,832,122	\$ 159,488,819

1967	1966	1965	1964	1963	1962
313,161,131	280,321,033	258,531,769	236,359,125	223,796,201	184,149,537
154,549,081	142,641,250	128,633,334	120,350,431	111,649,773	105,253,605
150,073,659	131,758,034	119,741,783	113,068,719	104,224,822	96,650,354
122,407,694	120,020,515	111,398,097	111,180,696	110,643,742	93,048,790
28,293,740	27,059,565	24,965,970	23,964,852	22,837,328	21,868,559
13,017,398	16,597,131	16,648,120	15,532,720	21,365,932	9,040,725
3,702,564	3,629,920	3,046,031	2,959,748	2,523,002	2,427,410
785,205,267	722,027,448	662,965,104	623,416,291	597,040,800	512,438,980
68,971,810	73,407,318	66,730,340	61,275,350	50,893,718	46,046,761
28,070,298	20,173,450	13,494,591	5,500,091	6,608,496	5,499,624
20,860,851	13,568,905	12,228,923	10,771,795	7,577,679	14,029,295
903,108,226	829,177,121	755,418,958	700,963,527	662,120,693	578,014,660

1967	1966	1965	1964	1963	1962
461,385 67%	\$373,945 63%	\$354,159 64%	\$321,488 63%	\$288,277 62%	\$304,045 66%
43,969 6	45,023 8	47,907 8	48,606 10	50,162 11	56,158 12
188,175 27	170,396 29	154,082 28	137,233 27	122,388 27	101,198 22
693,529 100%	\$589,364 100%	\$556,148 100%	\$507,327 100%	\$460,827 100%	\$461,401 100%

1967	1966	1965	1964	1963	1962
1,048,963,640	\$ 949,246,641	\$ 841,898,427	\$ 757,858,061	\$ 720,057,284	\$ 689,798,018
319,872,582	285,066,264	258,711,121	234,542,421	213,320,493	193,157,576
729,091,058	\$ 664,180,377	\$ 583,187,306	\$ 523,315,640	\$ 506,736,791	\$ 496,640,442

1967	1966	1965	1964	1963	1962
45,338,556	\$ 58,953,316	\$ 57,142,312	\$ 30,306,509	\$ 27,189,039	\$ 84,966,029
57,610,962	50,639,481	15,146,815	10,122,465	5,096,336	4,901,660
7,476,378	6,439,174	18,943,080	5,152,121	5,557,915	5,519,569
31,978	133,732	175,549	25,771	58,354	51,850
110,457,874	\$ 116,165,703	\$ 91,407,756	\$ 45,606,866	\$ 37,901,644	\$ 95,439,108

Directors of the Company



W. K. Sanders
Business Consultant



William C. Keefe
Chairman



Richard L. O'Shields
President and
Chief Executive Officer



Thomas Rodd
Vice-Chairman, Morgan Guaranty
Trust Company of New York



James M. Kemper, Jr.
President, Chairman, Commerce
Bancshares Incorporated



Max R. Lents
Partner of Butler, Miller and
Lents, Ltd.



Harry E. Ekblom
President, European-
American Banking
Corporation



Frederick H. Robinson
Retired Chairman



Richard S. Storrs
Partner of Sullivan & Cromwell



Drummond C. Bell
President, National Distillers & Chemical
Corporation

Directors of Trunkline Gas Company

William C. Keefe, Chairman
Sidney Lanier, Investment Advisor
Max R. Lents, Partner of Butler, Miller and
Lents, Ltd.
Richard L. O'Shields, President and
Chief Executive Officer
Joseph E. Reid, Executive Vice President
Frederick H. Robinson
W. K. Sanders

Panhandle Eastern

PIPE LINE COMPANY

Executive Offices: 3000 Bissonnet Ave., Houston, Texas 77005
Operating Offices: 3444 Broadway, Kansas City, Missouri 64111

Officers:	
Richard L. O'Shields	President and Chief Executive Officer
William C. Keefe	Chairman
Kenneth E. Kalen	Group Vice President
S. L. Robertson Jr.	Financial Vice President
Richard C. Dixon	Senior Vice President
F. J. McElhatton	Senior Vice President
H. D. Henderson	Senior Vice President
C. M. Allen	Vice President and Treasurer
W. P. Anderson	Vice President
H. W. Cain	Vice President
Laurence E. Hanna	Vice President
George J. Kurk	Vice President
Ben H. Longshore	Vice President
Richard L. Matheson	Vice President
James R. Sykes	Vice President
Cyril J. Smith	Secretary
Donald A. Robertson	Controller and Assistant Secretary
Wendell J. Doggett	General Attorney and Assistant Secretary
Robert D. Hunsucker	Assistant Secretary and Assistant Treasurer
Vernon D. Rigdon	Assistant Treasurer
James T. Noel	Assistant Controller

TRUNKLINE GAS COMPANY 3000 Bissonnet Avenue, Houston, Texas 77005

Officers:	
Richard L. O'Shields	President and Chief Executive Officer
William C. Keefe	Chairman
Joseph E. Reid	Executive Vice President
S. L. Robertson Jr.	Financial Vice President
Richard C. Dixon	Senior Vice President
H. D. Henderson	Senior Vice President
Robert D. Hunsucker	Vice President and Treasurer
H. W. Cain	Vice President
George J. Kurk	Vice President
A. W. McAnneny	Vice President
Ernest O. Nelson	Vice President
Dwight H. Seely Jr.	Vice President
James R. Sykes	Vice President
Cyril J. Smith	Secretary
Robert O. Parker	Controller and Assistant Secretary

Common Stock Listing

Trading Symbol—PEL
New York Stock Exchange
Pacific Coast Stock Exchange

Registrars

Chemical Bank, New York City
Bank of the Southwest,
Houston, Texas

Transfer Agents

Morgan Guaranty Trust Company
of New York, New York City
Continental Stock Transfer Company
Jersey City, New Jersey
First City National Bank,
Houston, Texas

The financial statements of
Trunkline Gas Company
for the year ended
December 31, 1971
may be obtained by
writing the Company, P.O.
Box 1642, Houston,
Texas 77001.

**Panhandle
Eastern** PIPE LINE COMPANY

Trunkline Gas Company

17. NAME, ADDRESS AND OCCUPATION DURING THE PAST FIVE YEARS
OF EACH DIRECTOR AND OFFICER

Name	Office	Address
Drummond C. Bell	Director	President National Distillers and Chemical Corporation 99 Park Avenue New York, New York 10016
Harry E. Ekblom	Director	President European-American Banking Corporation 10 Hanover Square New York, New York 10005
James M. Kemper, Jr.	Director	President and Chairman of the Board Commerce Bancshares, Incorporated P.O. Box 13686 Kansas City, Missouri 64199
Max R. Lents	Director	Co-Chairman Executive Committee Butler, Miller and Lents, Ltd. 2138 Bank of the Southwest Building 910 Travis Houston, Texas 77002
Frederick H. Robinson	Director	Retired Enniskillen Farm R.R. No. 2, Box 888 Stafford, Virginia 22554
Thomas Rodd	Director	Vice Chairman Morgan Guaranty Trust Company of New York 23 Wall Street New York, New York 10015
William K. Sanders	Consultant and Director	P.O. Box 1642 Houston, Texas 77001
Richard S. Storrs, Esq.	Director	Sullivan & Cromwell 48 Wall Street New York, New York 10005
William C. Keefe	Chairman of the Board and Director	Panhandle Eastern Pipe Line Company P.O. Box 1642 Houston, Texas 77001
Richard L. O'Shields	President, Chief Executive Officer and Director	Panhandle Eastern Pipe Line Company P.O. Box 1642 Houston, Texas 77001
Kenneth E. Kalen	Group Vice President	Panhandle Eastern Pipe Line Company P.O. Box 1348 Kansas City, Missouri 64141
S. Lawrence Robertson, Jr.	Financial Vice President	Panhandle Eastern Pipe Line Company P.O. Box 1642 Houston, Texas 77001
Richard C. Dixon	Senior Vice President	Panhandle Eastern Pipe Line Company P.O. Box 1642 Houston, Texas 77001
Clarence M. Allen	Vice President and Treasurer	Panhandle Eastern Pipe Line Company P.O. Box 1348 Kansas City, Missouri 64141
William Page Anderson	Vice President	Panhandle Eastern Pipe Line Company P.O. Box 1642 Houston, Texas 77001
H. W. Cain	Vice President	Panhandle Eastern Pipe Line Company P.O. Box 1642 Houston, Texas 77001

Name	Office	Address
Laurence E. Hanna	Vice President	Panhandle Eastern Pipe Line Company P.O. Box 1348 Kansas City, Missouri 64141
George J. Kurk	Vice President	Panhandle Eastern Pipe Line Company P.O. Box 1642 Houston, Texas 77001
Ben H. Longshore	Vice President	Panhandle Eastern Pipe Line Company P.O. Box 1348 Kansas city, Missouri 64141
Richard L. Matheson	Vice President	Panhandle Eastern Pipe Line Company P.O. Box 1348 Kansas City, Missouri 64141
James R. Sykes	Vice President	Panhandle Eastern Pipe Line Company P.O. Box 1642 Houston, Texas 77001
Cyril J. Smith	Secretary	Panhandle Eastern Pipe Line Company P.O. Box 1642 Houston, Texas 77001
Donald A. Robertson	Controller and Assistant Secretary	Panhandle Eastern Pipe Line Company P.O. Box 1348 Kansas City, Missouri 64141
Wendall J. Doggett	General Attorney and Assistant Secretary	Panhandle Eastern Pipe Line Company P.O. Box 1642 Houston, Texas 77001
Robert D. Hunsucker	Assistant Treasurer and Assistant Secretary	Panhandle Eastern Pipe Line Company P.O. Box 1642 Houston, Texas 77001
Vernon D. Rigdon	Assistant Treasurer	Panhandle Eastern Pipe Line Company P.O. Box 1348 Kansas City, Missouri 64141
James T. Noel	Assistant Controller	Panhandle Eastern Pipe Line Company P.O. Box 1348 Kansas City, Missouri 64141
Robert O. Parker	Assistant Secretary	Panhandle Eastern Pipe Line Company P.O. Box 1642 Houston, Texas 77001
William L. Robertson	Assistant Secretary	Panhandle Eastern Pipe Line Company P.O. Box 1348 Kansas City, Missouri 64141

Note: All Officers of the Company have been in the employ of the Company, or one or more of its subsidiaries for a period of at least five years. All Directors who are not Officers of the Company have held office with the Companies indicated for a period of at least five years, with the exception of Mr. Frederick H. Robinson and Mr. William K. Sanders, both of whom were formerly Chairman of the Board of Directors prior to their retirement.

CERTIFICATE

Pursuant to a Resolution duly passed by the Board of Directors, Panhandle Eastern Pipe Line Company hereby applies for listing of the above-mentioned securities on The Toronto Stock Exchange, and the undersigned Officers thereof hereby certify that the statements and representations made in this Application and in the documents submitted in support thereof, are true and correct.

PANHANDLE EASTERN PIPE LINE COMPANY

By: “S. L. ROBERTSON, JR.”,
 Financial Vice President

By: “CYRIL J. SMITH”,
 Secretary



DISTRIBUTION OF COMMON STOCK AS OF SEPTEMBER 30, 1972

<u>Number</u>		<u>Shares</u>	
3,213	 Holders of 1 — 24 share lots	39,331	
4,792	 " " 25 — 99 " "	245,357	
5,139	 " " 100 — 199 " "	581,820	
2,717	 " " 200 — 299 " "	578,177	
727	 " " 300 — 399 " "	231,786	
914	 " " 400 — 499 " "	382,507	
1,184	 " " 500 — 999 " "	799,743	
1,008	 " " 1000 — up " "	11,553,952	
<u>19,694</u>	Shareholders	Total Shares	<u>14,412,673</u>

APPENDIX (Item 8 on Page 5)

SUBSIDIARY COMPANIES

<u>Name</u>	<u>Date of Incorporation</u>	<u>State of Incorporation</u>	<u>Nature of Business</u>	<u>Authorized Stock</u>	<u>Issued</u>	<u>Percent of Ownership</u>
Trunkline Gas Company	1947	Delaware	Natural gas transmission	10,000,000 Common (\$5 par value) 441,649 Preferred (\$100 par value)	5,350,000 Shares 393,000 Shares	100% of Common (all held by Public or Institutional Invest- ors
Anadarko Production Company	1959	Delaware	Oil and gas exploration	4,000,000 Common (\$1 par value)	1,559,281 Shares	100 Percent
Century Refining Company	1957	Delaware	Purchase and sale of petroleum products	50,000 Common (\$1 par value)	28,472 Shares	100 Percent
Pan Eastern Exploration Company	1971	Delaware	Oil and gas exploration	10,000 Common (\$.10 par value)	10,000 Shares	100 Percent
Panhandle Western Gas Company	1970	Delaware	Oil and gas exploration and transmission	10,000 Common (\$.10 par value)	1,000 Shares	100 Percent
Pan Eastern Coal Company	1972	Delaware	Coal gasification experimentation	10,000 Common (\$.10 par value)	1,000 Shares	100 Percent
Panhandle Canadian Gas, Limited	1972	Province of Alberta, Canada	Oil and gas exploration	20,000 Common (no par value)	(Only Directors' Qualifying Shares have been issued)	
Paragon Data Systems, Inc.	1971	Delaware	Computer services	10,000 Common (\$.10 par value)	10,000 Shares	100 Percent
National Helium Corporation	1960	Delaware	Production of helium	2,000,000 (\$1 par value)	1,040,000 Shares	50 Percent

Panhandle Eastern

PIPE LINE COMPANY

Third Quarterly Report to Stockholders 1972

The information contained herein is published solely for the information of stockholders and is not to be considered as an offer, or the solicitation of an offer, to buy or sell any securities.

HOUSTON, TEXAS 77005

Consolidated Income Statement • Unaudited • (000's Omitted)

	Three Months Ended September 30		Nine Months Ended September 30		Twelve Months Ended September 30	
	1972	1971	1972	1971	1972	1971
Operating revenues:						
Gas	\$108,403	\$ 95,427	\$344,253	\$305,701	\$454,942	\$408,738
Other	7,555	8,846	25,824	25,706	34,530	34,179
Total operating revenues	<u>115,958</u>	<u>104,273</u>	<u>370,077</u>	<u>331,407</u>	<u>489,472</u>	<u>442,917</u>
Operating expenses and taxes:						
Gas purchased	50,636	48,276	159,705	149,101	212,851	197,631
Operation	19,076	18,636	57,403	55,251	75,907	74,120
Maintenance	3,694	3,383	10,757	9,594	13,820	13,197
Depreciation, depletion, amortization	13,803	13,073	41,179	38,975	54,970	50,843
State, local, miscellaneous Federal taxes	5,421	4,768	15,984	14,723	19,152	18,498
Federal income taxes	4,695	962	19,447	9,889	25,188	13,672
Investment tax credit	2,574	812	7,359	2,436	9,596	3,766
Total operating expenses and taxes	<u>99,899</u>	<u>89,910</u>	<u>311,834</u>	<u>279,969</u>	<u>411,484</u>	<u>371,727</u>
Operating income	<u>16,059</u>	<u>14,363</u>	<u>58,243</u>	<u>51,438</u>	<u>77,988</u>	<u>71,190</u>
Other income:						
Dividends, interest and miscellaneous	3,432	1,493	7,596	5,643	9,392	8,232
Investment tax credit (amortization basis)—prior years	502	540	1,503	1,452	2,055	1,802
Total other income	<u>3,934</u>	<u>2,033</u>	<u>9,099</u>	<u>7,095</u>	<u>11,447</u>	<u>10,034</u>
Gross income	<u>19,993</u>	<u>16,396</u>	<u>67,342</u>	<u>58,533</u>	<u>89,435</u>	<u>81,224</u>
Interest and other deductions:						
Interest expense	9,943	9,774	28,999	29,029	38,787	38,746
Interest charged to construction	(126)	(345)	(369)	(984)	(651)	(2,004)
Discount on purchases of long-term debt for retirement	(443)	(643)	(1,432)	(1,902)	(2,216)	(2,677)
Dividends on preferred stock of subsidiary	699	707	2,098	2,121	2,797	2,829
Total interest and other deductions	<u>10,073</u>	<u>9,493</u>	<u>29,296</u>	<u>28,264</u>	<u>38,717</u>	<u>36,894</u>
Income before change in accounting principle	9,920	6,903	38,046	30,269	50,718	44,330
Excess of flow through over amortization of investment tax credit	2,072	—	5,856	—	5,856	—
Income before extraordinary item	<u>11,992</u>	<u>6,903</u>	<u>43,902</u>	<u>30,269</u>	<u>56,574</u>	<u>44,330</u>
Extraordinary item—flow through of prior years' investment tax credit	—	—	29,070	—	29,070	—
Net income	<u>11,992</u>	<u>6,903</u>	<u>72,972</u>	<u>30,269</u>	<u>85,644</u>	<u>44,330</u>
Preferred stock dividends	645	649	1,939	1,955	2,587	2,612
Earnings available for common stock	<u>\$ 11,347</u>	<u>\$ 6,254</u>	<u>\$ 71,033</u>	<u>\$ 28,314</u>	<u>\$ 83,057</u>	<u>\$ 41,718</u>
Earnings per common share:						
Before change in accounting principle	\$.64	\$.43	\$2.50	\$1.97	\$3.33	\$2.91
Excess of flow through over amortization of investment tax credit	.14	—	.40	—	.40	—
Before extraordinary item	.78	.43	2.90	1.97	3.73	2.91
Extraordinary item—flow through of prior years' investment tax credit	—	—	2.01	—	2.01	—
Earnings per common share	<u>\$.78</u>	<u>\$.43</u>	<u>\$4.91</u>	<u>\$1.97</u>	<u>\$5.74</u>	<u>\$2.91</u>
Pro forma net income reflecting flow through of investment tax credit (before preferred dividends)	<u>\$ 11,992</u>	<u>\$ 7,175</u>	<u>\$ 43,902</u>	<u>\$ 31,253</u>	<u>\$ 58,259</u>	<u>\$ 46,294</u>
Pro forma earnings per common share	<u>\$.78</u>	<u>\$.45</u>	<u>\$2.90</u>	<u>\$2.04</u>	<u>\$3.85</u>	<u>\$3.04</u>
Average number of shares of common stock outstanding (000's omitted)	<u>14,469</u>	<u>14,470</u>	<u>14,469</u>	<u>14,384</u>	<u>14,470</u>	<u>14,351</u>

Consolidated Balance Sheet • Unaudited • (000's Omitted)

Assets

	September 30, 1972	1971
Plant, property and equipment, at original cost	\$1,432,435	\$1,399,444
Less accumulated depreciation, depletion and amortization	514,695	466,026
Net plant, property and equipment	917,740	933,418
Investments, at cost (which is considerably lower than current market value)	30,122	30,662
Advance payments for gas	45,601	40,333
Current assets:		
Cash	29,467	37,803
Temporary cash investments, at cost	7,275	500
Accounts and notes receivable	41,356	37,069
Inventory and supplies, at average cost	19,308	18,467
Other prepayments and special deposits	7,175	6,595
Total current assets	104,581	100,434
Deferred charges	16,078	8,655
	<u>\$1,114,122</u>	<u>\$1,113,502</u>

Liabilities
Capitalization:
Stockholders' equity:

Common stock	\$ 22,609	\$ 22,610
Paid-in capital	35,544	35,632
Retained earnings (\$163,768 not restricted as to payment of dividends)	263,027	206,013
Total common stockholders' equity	321,180	264,255
Preferred stock	38,779	39,330
Total stockholders' equity	359,959	303,585
Preferred stock of subsidiary held by public	39,300	39,950
Long-term debt	530,605	576,445
Total capitalization	929,864	919,980

Current liabilities:

Long-term debt due within one year	22,554	22,735
Notes payable	13,050	38,300
Accounts payable and accrued liabilities	86,574	69,571
Total current liabilities	122,178	130,606

Reserves and other liabilities:

Deferred Federal income taxes	53,002	27,993
Deferred investment tax credit	—	27,388
Other, including contributions in aid of construction	9,078	7,535
Total reserves and other liabilities	62,080	62,916
	<u>\$1,114,122</u>	<u>\$1,113,502</u>

Shares of common stock outstanding do not include Treasury stock held as of September 30, 1972 and 1971 of 570,824 shares.

To The Stockholders:

Continued growth in earnings and regulatory approval of a new concept to increase gas exploration highlighted the third quarter of 1972.

Consolidated net income for the three months ended September 30, 1972, was \$11,992,362 which, after payment of preferred dividends, was equal to 78 cents per share of common stock outstanding as compared with net income of \$6,903,118 or 43 cents per share for the comparable period in 1971. Net income for the first nine months of 1972 (before extraordinary item) amounted to \$43,902,368 or \$2.90 per share as compared with net income of \$30,268,501 or \$1.97 per share in the first nine months of 1971.

These financial results include 14 cents for the quarter and 40 cents for the first nine months of 1972 resulting from the adoption this year of full flow-through accounting for Investment Tax Credit and Job Development Credit. Thus, net income from operations, stated before the accounting change, amounted to \$2.50 per share for the first nine months as compared with \$1.97 per share for the like period of 1971.

Included in the financial results for the third quarter is a gain of \$1.1 Million, or 8 cents per share, net of Federal Income Tax, realized from the sale of rights, issued by National Distillers and Chemical Corporation to its stockholders, to purchase common stock of Almaden Vineyards, Inc., a subsidiary of National. National retained ownership of 84 per cent of Almaden's common stock following the rights offering. The Company continues to own three million shares, or about 11 per cent, of National common stock.

Gas Supply Matters

In September the Federal Power Commission authorized the Pan Eastern Exploration Company project, devoted exclusively to the search for new gas reserves for the Panhandle Eastern system. Under terms of the FPC order, all Company-owned production in the Anadarko Basin and undeveloped acreage will be transferred to Pan Eastern which, in turn, is authorized to sell the gas to Panhandle at prevailing area rates. This Company-owned production had previously been included in Panhandle's rates on a cost-of-service basis which is substantially lower than area prices.

The Commission estimated the difference in rates would generate \$43.6 Million over a five-

year period and directed that such funds be entirely devoted to exploration by Pan Eastern. The FPC order further provided that should Pan Eastern be unable to dedicate at least 400 billion cubic feet of gas to Panhandle within seven years, certain refunds would be required. Currently pending before the FPC is a re-hearing request filed by two municipal customers.

In connection with gas supply conditions generally, both the Panhandle and Trunkline systems will be forced to curtail deliveries to customers during the 1972-73 winter period. While each transmission system has acquired and aggressively seeks available short-term supplies, these volumes are not adequate to offset declining deliverability from the Company's regular supply sources.

New Activities

In early October the Company and Dixilyn Corporation agreed in principle to form a new joint venture to engage in offshore contract drilling under the management of Dixilyn. Consummation of the proposed venture is subject to negotiation of definitive contracts and receipt of appropriate tax rulings.

During the quarter Trunkline issued \$50 Million of 15-year notes which were privately placed with three insurance companies. The proceeds of the notes, which carry an annual interest rate of $8\frac{1}{4}$ per cent, together with \$10 Million of internally generated funds, were used to retire an equivalent amount of Trunkline term bank loans.

At its meeting on November 1, the Board of Directors authorized an increase in the quarterly dividend from 45 cents to $47\frac{1}{2}$ cents per share, payable December 15, 1972, to stockholders of record on November 17, 1972. This action brings the indicated annual dividend to \$1.90 per share.

Very truly yours,

R. L. Ashfield William C. Keefe

President

Chairman

November 6, 1972